AUDITORS' REPORT

To the Shareholders of Lake Shore Gold Corp.

We have audited the consolidated balance sheets of Lake Shore Gold Corp. as at December 31, 2008 and 2007 and the consolidated statements of loss and deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario
March 11, 2009

CONSOLIDATED BALANCE SHEETS

As at December 31,	**2008**	2007
ASSETS		
Current		
Cash and cash equivalents	**$ 85,318,825**	$ 11,914,793
Exploration advances and other receivables	**3,887,853**	1,414,673
	89,206,678	13,329,466
Investment	**3,000**	28,500
Restricted cash *note 6*	**4,901,128**	3,779,817
Property, plant and equipment (net of accumulated amortization) *note 8*	**13,702,980**	507,325
Resource properties and deferred exploration *note 9*	**172,108,020**	109,041,337
	$ 279,921,806	$ 126,686,445
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 17,112,659**	$ 4,667,791
Current portion of lease obligations *note 10*	**670,918**	110,016
	17,783,577	4,777,807
Lease obligations *note 10*	**718,558**	71,787
Asset retirement obligations *note 12*	**1,461,374**	1,227,914
Future income tax liabilities *note 14*	**17,381,159**	14,523,492
	19,561,091	15,823,193
SHAREHOLDERS' EQUITY		
Share capital *note 11(b)*	**252,872,195**	112,071,081
Contributed surplus *note 11(f)*	**7,981,507**	6,796,861
Accumulated other comprehensive loss *note 11(g)*	**–**	(6,000)
Deficit	**(18,276,564)**	(12,776,497)
	242,577,138	106,085,445
	$ 279,921,806	$ 126,686,445

Commitments and contingencies *notes 8 and 16*

Subsequent event *note 17*

See accompanying notes to consolidated financial statements

Approved by the Board

ALAN C. MOON
Director

ARNOLD KLASSEN
Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the year ended December 31,	**2008**	2007
Expenses		
Corporate costs *note 11(d)*	**$ 5,829,532**	$ 811,991
Consulting and management fees *notes 11(d) and 13*	**1,095,641**	1,399,086
General exploration *note 11(d)*	**829,646**	1,102,537
Shareholder information	**578,807**	458,756
Legal and accounting	**434,297**	232,639
Unrealized loss on investment	**31,500**	–
Write-off of resource properties and deferred exploration	**–**	1,559,428
Depreciation of property, plant and equipment	**144,350**	15,648
Accretion of asset retirement obligations *note 12*	**123,762**	–
Travel	**684,719**	308,791
Loss before the undernoted	**(9,752,254)**	(5,888,876)
Interest expense	**(184,001)**	(61,270)
Interest and other income	**2,404,251**	1,081,706
Loss before income taxes	**(7,532,004)**	(4,868,440)
Recovery of income taxes *note 14*	**2,031,937**	3,778,595
Net loss for the year	**$ (5,500,067)**	$ (1,089,845)
Deficit, beginning of year	**$ (12,776,497)**	$ (11,686,652)
Deficit, end of year	**$ (18,276,564)**	$ (12,776,497)
Net loss per share – basic and diluted *note 11(h)*	**$ (0.04)**	$ (0.01)
Weighted-average number of shares outstanding	**155,797,421**	106,548,538

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31,	**2008**	2007
Net loss for the year	**$ (5,500,067)**	$ (1,089,845)
Other comprehensive loss:	**6,000**	(6,000)
Comprehensive loss for the year	**$ (5,494,067)**	$ (1,095,845)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31,	**2008**	2007
OPERATING ACTIVITIES		
Net loss for the year	**$ (5,500,067)**	$ (1,089,845)
Recovery of future income taxes	**(2,031,937)**	(3,778,595)
Stock-based compensation *note 11(d)*	**1,604,641**	1,139,887
Unrealized loss (gain) on investment	**31,500**	(34,500)
Write-off of resource properties and deferred exploration	**–**	1,559,428
Depreciation	**144,350**	15,648
Accretion of asset retirement obligations *note 12*	**123,762**	–
	(5,627,751)	(2,187,977)
Change in non-cash operating working capital items:		
Decrease (increase) in exploration advances and other receivables	**115,465**	(809,667)
Increase in accounts payable and accrued charges	**1,249,354**	283,980
Cash used in operating activities	**(4,262,932)**	(2,713,664)
INVESTING ACTIVITIES		
Restricted cash	**(1,121,311)**	(3,779,817)
Acquisition of Bell Creek assets	–	(8,186,292)
Additions to property, plant and equipment	**(11,294,897)**	(290,564)
Resource properties and deferred exploration expenditures	**(54,096,969)**	(14,799,567)
Cash used in investing activities	**(66,513,177)**	(27,056,240)
FINANCING ACTIVITIES		
Proceeds from private placements/public offerings (net of share issue costs)	**143,345,703**	26,734,226
Exercise of stock options and warrants	**1,094,750**	1,471,200
Payment of capital lease obligations	**(260,311)**	(38,811)
Cash provided by financing activities	**144,180,142**	28,166,615
Increase (decrease) in cash during the year	**73,404,033**	(1,603,289)
Cash and cash equivalents at beginning of year	**11,914,793**	13,518,082
Cash and cash equivalents at end of year	**$ 85,318,826**	$ 11,914,793

Supplemental cash flow information *note 15*

See accompanying notes to consolidated financial statements

1. DESCRIPTION OF BUSINESS

Lake Shore Gold Corp. ("Lake Shore Gold" or the "Company") is a mineral development company engaged in the exploration and development of gold properties in Northern Ontario and Quebec. The Company is in the advanced exploration stage on one of its properties and has not determined whether the other exploration properties contain mineral reserves that are economically recoverable. The recoverability of the amount shown for resource properties and deferred exploration is dependent upon the discovery of economically recoverable reserves on the other exploration properties and on attaining future profitable production from its advanced exploration property.

The Company believes it has sufficient funds to finance its current operating, development and exploration expenditures. Longer term, the Company may pursue opportunities to raise additional capital through equity and/or debt markets as it progresses with its projects and properties. Management is of the opinion that additional financing is available and may be sourced in time to allow the Company to continue its planned activities in the normal course. There can, however, be no assurance it will be able to raise funds in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect the following policies:

a) Basis of Consolidation

The consolidated financial statements include all the accounts of the Company and its wholly owned subsidiary, LSG Holding Corp. All intercompany balances and transactions have been eliminated upon consolidation. The Company participates in unincorporated joint ventures which are not variable interest entities. The Company proportionately consolidates its interest in these unincorporated joint ventures.

b) Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other financial liabilities. Items held-to-maturity, loans and receivables and other financial liabilities 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 and deficit.

The Company has designated its cash and cash equivalents as held-for-trading, which are 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 or when the investment is impaired and the impairment is considered less than temporary. The Company has not classified any financial assets as held-to-maturity.

c) Cash and Cash Equivalents

Cash and cash equivalents includes those short-term money market instruments which, on acquisition, have a term to maturity of three months or less.

d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include assets of a capital nature that are currently used and amortized. Property, plant and equipment are amortized on a straight-line basis over the asset's useful life.

Depreciation rates for each class of asset are as follows:

Office equipment	20%
Computer equipment	30%
Mining and milling equipment	3–10 years

e) Resource Properties and Deferred Exploration

Resource properties and related exploration and development costs are recorded at cost on a property-by-property basis.

The Company considers its exploration and evaluation costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration and evaluation costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made. Costs incurred for general exploration, including expenditures of a general reconnaissance nature, that are not project specific or do not result in the acquisition of resource properties are charged to operations.

Property, plant and equipment currently not in use are recorded as resource properties and deferred exploration until those properties are brought into production, at which time they will be reclassified in property, plant and equipment and amortized over the life of the mine on a unit-of-production basis, except where the life of the asset is less than the life of the mine, in which case depreciation will be recorded on a straight-line basis over its useful life, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

Long-lived assets, including resource properties and deferred exploration, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, whenever the future cash flows to be generated by the asset can be estimated. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For resource properties for which the Company has not established mineral reserves, and therefore does not have a basis to prepare cash flow projections to support the carrying amount of these properties, other factors such as gold prices, the ability of the Company to finance the projects and exploration results to date, are considered in determining whether a write down is required.

f) Future Income Taxes

The Company uses the asset and liability method in accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

g) Asset Retirement Obligations

Asset retirement obligations consist of legal obligations associated with the retirement of tangible, long-lived assets that result from the acquisition, construction, development or operation of the assets. The retirement of a long-lived asset is its permanent removal from service, sale, abandonment or disposal.

Asset retirement obligations are recognized as they are incurred and recorded as liabilities at fair value. The liability is accreted over time through periodic charges to income. Actual expenditures incurred are charged against the accumulated obligation. The asset retirement cost is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

h) Comprehensive Income (Loss)

Comprehensive income (loss) comprises of the Company's net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on financial assets classified as available-for-sale, net of income taxes. The components of the comprehensive loss are disclosed on the consolidated statements of comprehensive loss.

i) Stock-Based Compensation

The Company has a stock-based compensation plan which is described in note 11(c).

The stock-based compensation cost is based on the estimated fair value of new options granted to employees, consultants, officers and directors. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option-pricing model and is expensed over the vesting period. The stock-based compensation cost is recognized as an expense on the consolidated statements of loss and deficit or capitalized on resource properties and deferred exploration (options granted to individuals involved on specific projects).

j) Basic and Diluted Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants using the treasury stock method. In periods where a net loss is reported, all outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive.

k) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting periods. Significant estimates where management's judgment is applied include asset valuations, asset retirement obligations, income taxes, stock-based compensation and ability to continue as a going concern. Actual results may differ from those estimates.

3. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

A. CHANGES IN ACCOUNTING POLICIES

a) Capital Disclosures and Financial Instruments

Effective January 1, 2008, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. The accounting policy changes as a result of these new standards are as follows:

(i) Capital Disclosures

Section 1535 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 Company has included disclosures recommended by Section 1535 in note 4 to these consolidated financial statements.

(ii) Financial Instruments – Disclosures and 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 Company has included disclosures recommended by Section 3862 and Section 3863 in note 5 to these consolidated financial statements.

b) Defined Contribution Pension Plan

On June 3rd 2008, the Company signed a defined contribution pension plan agreement which covers all the Company's employees. The agreement is effective January 1, 2008 and provides that the Company contributes a fixed percentage of the employees' salary to the pension plan. The employees are able to direct the contributions into a variety of investment funds offered by the plan. Pension costs associated with the Company's required contributions under the plan are recognized as incurred and charged to the consolidated statements of loss and deficit or capitalized on resource properties and deferred exploration for employees involved in the specific projects. For the year ended December 31, 2008, the Company charged $88,390 to the consolidated statements of loss and deficit and capitalized $215,115 on the resource properties and deferred exploration.

c) General Standards of Financial Statements Presentation – Section 1400

In June 2007, the CICA amended Section 1400, *"General Standards of Financial Statement Presentation"*, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or consolidated results of operations as at December 31, 2008 and for the year then ended.

B. RECENT ACCOUNTING PRONOUNCEMENTS

a) Convergence with International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company's first mandatory filing under IFRS, which will be the first quarter of 2011, will contain IFRS-compliant information on a comparative basis, as well as reconciliations for that quarter and as at January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. The Company has developed a plan for IFRS convergence and has started the implementation process. Detailed analysis of the differences between IFRS and the Company's accounting policies and assessment of the various alternatives for first time adoption of IFRS are in progress. Training for key employees has begun and will continue throughout the implementation. Due to anticipated changes in IFRS prior to transition, it is currently not possible to fully determine the impact on the consolidated results.

b) Business Combinations / Consolidated Financial Statements / Non-Controlling Interests

In January 2009, the CICA adopted sections 1582, *"Business Combinations"*, 1601, *"Consolidated Financial Statements"*, and 1602, *"Non-Controlling Interests"* which superseded current sections 1581, *"Business Combinations"* and 1600, *"Consolidated Financial Statements"*. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to IFRS.

4. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it to effectively support the acquisition, exploration and development of mineral properties. In the definition of capital, the Company includes, as disclosed on its consolidated balance sheet: share capital, deficit, contributed surplus and cash and cash equivalents.

One of the properties in which the Company has an interest, is in advanced exploration and the remainder are in the exploration stage. The Company believes it has sufficient funds to fund its current operating and exploration expenditures but may pursue opportunities to raise additional capital through equity and/or debt markets as it progresses towards and reaches commercial gold production. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. Neither the Company nor its subsidiary is subject to externally imposed capital requirements and do not have exposure to asset-backed commercial paper or similar products.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

FINANCIAL INSTRUMENTS

The Company had no held-to-maturity instruments and no allowance for credit losses as at December 31, 2008 and 2007;

As at December 31,	**2008**	2007
Financial Assets		
Held-for-trading, measured at fair value		
Cash and cash equivalents	**$ 85,318,825**	$ 11,914,793
Restricted cash	**4,901,128**	3,779,817
	$ 90,219,953	$ 15,694,610
Loans and receivable, measured at amortized cost		
Exploration and other receivables	**$ 3,887,853**	$ 1,414,673
Available-for-sale, measured at fair value		
Investment	**$ 3,000**	$ 28,500
Financial Liabilities		
Other liabilities, measured at amortized cost		
Accounts payable and accrued charges	**$ 17,112,659**	$ 4,667,791

FAIR VALUES

The fair values of cash and restricted cash, exploration advances and other receivables and accounts payable and accrued charges approximate their carrying values due to the short-term to maturity of these financial instruments.

RISK MANAGEMENT POLICIES

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, forwards and future contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to exploration advances and receivables, which consist of goods and services tax due from the Federal Government of Canada, refundable tax credits for resources due from the Government of Quebec and receivables from the Company's partner on the Thunder Creek property (in 2007, the Company earned an interest of 60% on the property, from which time, expenditures are shared on a 60/40 basis). The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in other assets is remote. The Thunder Creek property agreement provides for the dilution of the interest of the party electing not to participate on the property expenditures.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company has a cash and cash equivalents balance of $85,318,825 (December 31, 2007 – $11,914,793) to settle current liabilities of $17,783,577 (December 31, 2007 – $4,777,807). Subsequent to year end (note 17), the Company completed a bought deal financing and received net proceeds of $57,652,622. All of the Company's financial liabilities are subject to normal trade terms.

Market Risk

a. Interest rate risk

The Company has significant cash balances and no debt. The Company's current policy is to invest excess cash in very low risk investments with its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks and investments. The Company's excess cash at December 31, 2008, is invested in very liquid and low risk accounts with its banking institution and Government of Canada Treasury Bills. The Company is exposed to short term interest rates through the interest earned on cash and T Bill's balances. A 1% change in short term rates would change the interest income and net loss of the Company, assuming that all other variables remain constant, by approximately $597,000 in 2009.

b. Price risk

The Company is exposed to price risk with respect to future gold prices which impacts the future economic feasibility of its exploration and advanced exploration properties.

c. Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk with respect to future gold sales, since gold sales will be denominated in United States Dollars (US$) and the Company's functional currency is Canadian dollar. The movements on US$ rates may impact the future economic feasibility of the Company's exploration properties.

6. RESTRICTED CASH

Restricted cash includes security funds for letters of credits issued by the Company in favour of the Ontario Ministry of Northern Development and Mines as security for the Company's obligations under the Closure Plans submitted for the Timmins project advanced exploration and Bell Creek Mine and Mill ($3,872,217) and other letters of credits issued under various agreements ($1,028,911). These funds are restricted and not available for current operations. During the year ended December 31, 2008, the Company issued letters of credit for $1,121,311 (2007 – $3,779,817).

7. BELL CREEK ASSET ACQUISITION

On December 18, 2007, the Company acquired the Bell Creek mine and mill assets, located in the Timmins Gold Camp, Ontario from the Porcupine Joint Venture ("PJV"), a joint venture between Goldcorp Canada Ltd. ("Goldcorp") and Kinross Gold Corporation ("Kinross"). 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.

Consideration for the acquisition consisted of $7.5 million cash and 1,655,629 common shares of the Company, valued at $2,631,788, as well as 2,000,000 common share purchase warrants exercisable for a period of two years at $2.41 per share, valued at $712,000 (note 11 (e)). The Company incurred related transaction costs of $686,292. Goldcorp and Kinross, as parties to the PJV, agreed to hold their respective Lake Shore Gold shares for a period of 12 months from the date of acquisition. Lake Shore Gold also granted the PJV a royalty equal to 2% of net smelter returns on the Bell Creek mine, equal to 2% less any amounts required to be paid pursuant to existing underlying royalties encumbering the Bell Creek mine. The PJV would not receive any payment if the amount payable pursuant to existing underlying royalties equals or exceeds 2% of net smelter returns.

The allocation of the purchase price has been finalized as of December 31, 2008. The consideration paid by the Company has been allocated to assets and liabilities acquired as follows:

	Total
Mineral properties	
Bell Creek Mill	$ 9,479,259
Bell Creek Mine	1,546,950
Mineral rights	1,978,668
Asset retirement obligations *note 12*	(1,162,709)
Future tax liabilities	(312,088)
Purchase price	$ 11,530,080
Consideration:	
Cash	$ 8,186,292
Common shares *note 11(b)*	2,631,788
Warrants *note 11(e)*	712,000
Total purchase price consideration	$ 11,530,080

8. PROPERTY, PLANT AND EQUIPMENT

The details of property, plant and equipment at December 31, 2008 are as follows:

	Cost	Accumulated Amortization	Net Book Value
Office equipment	**$ 217,503**	**$ 39,828**	**$ 177,675**
Computer equipment	**779,118**	**169,761**	**609,357**
Mining and milling equipment	**13,585,138**	**669,190**	**12,915,948**
	$ 14,581,759	**$ 878,779**	**$ 13,702,980**

At December 31, 2007:

	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 143,911	$ 5,103	$ 138,808
Computer equipment	218,119	43,822	174,297
Mining and milling equipment	216,105	21,885	194,220
	$ 578,135	$ 70,810	$ 507,325

Mining and milling equipment at December 31, 2008, includes cost of $1,733,176 (December 31, 2007 - $202,004) and accumulated amortization of $128,367 (December 31, 2007 - $20,201) of capital equipment and vehicles under capital lease (note 10). On August 1, 2008, $5,253,325 was transferred from construction in progress (resource properties and deferred exploration) to mining and milling equipment.

The amortization of equipment used in the exploration activities is capitalized in resource properties and deferred exploration ($663,618 for the year ended December 31, 2008; $43,546 for the year ended December 31, 2007).

9. RESOURCE PROPERTIES AND DEFERRED EXPLORATION

For the year ended December 31, 2008:

	Timmins Mine Project	Bell Creek Properties	Thunder Creek	Blakelock	Ti-pa-haa-kaa-ning	Other [1]	Total
Balance, beginning of year	**$ 82,078,518**	**$ 19,086,918**	**$ 2,413,035**	**$ 2,172,433**	**$ 322,441**	**$ 2,967,992**	**$ 109,041,337**
Property acquisition, assessment and maintenance	**277**	**118,071**	**8,663**	**10,661**	**120,759**	**205,732**	**464,163**
Bell Creek mine and mill	–	**9,009,335**	–	–	–	–	**9,009,335**
Analytical	**88,532**	**24,552**	**34,402**	**79,281**	**206,589**	**33,442**	**466,798**
Geophysics	–	–	–	**11,594**	**40,979**	**4,829**	**57,402**
Geology	**237,472**	**319,402**	**119,052**	**132,503**	**428,160**	**430,103**	**1,666,692**
Drilling	**1,687,533**	**4,076,145**	**749,082**	**997,452**	**2,615,904**	**1,014,779**	**11,140,895**
Project administration	**317,599**	**252,350**	**50,889**	**119,086**	**745,486**	**119,562**	**1,604,972**
Advanced exploration	**38,656,426**	–	–	–	–	–	**38,656,426**
Balance, end of year	**$ 123,066,357**	**$ 32,886,773**	**$ 3,375,123**	**$ 3,523,010**	**$ 4,480,318**	**$ 4,776,439**	**$ 172,108,020**

[1] Includes Casa Berardi $1,041,430 (net of estimated Quebec refundable taxes of $735,545); Abitibi $1,644,410; Bazooka $941,889; Miscellaneous $1,148,710.

For the year ended December 31, 2007:

	Timmins Mine Project	Bell Creek Properties	Thunder Creek	Blakelock	Ti-pa-haa-kaa-ning	Other [1]	Total
Balance, beginning of year	$ 70,332,789	$ 4,815,453	$ 1,216,645	$ 841,600	$ –	$ 2,131,165	$ 79,337,652
Property acquisition, assessment and maintenance	3,751	108,797	226,018	21,220	24,479	97,005	481,270
Bell Creek mine and mill	–	13,854,032	–	–	–	–	13,854,032
Analytical	77,701	32,431	72,111	122,165	155	11,788	316,351
Geophysics	985	–	–	22,541	580	35,400	59,506
Geology	1,270,265	191,122	117,739	222,359	97,184	370,899	2,269,568
Drilling	1,355,214	83,883	778,522	941,724	112,816	598,838	3,870,997
Project administration	234,313	1,200	2,000	824	87,227	162,325	487,889
Construction in progress	2,301,531						2,301,531
Advanced exploration	7,621,969	–	–	–		–	7,621,969
Resource property costs written off	(1,120,000)	–	–	–		(439,428)	(1,559,428)
Balance, end of year	$ 82,078,518	$ 19,086,918	$ 2,413,035	$ 2,172,433	$ 322,441	$ 2,967,992	$ 109,041,337

[1] Includes Abitibi $1,693,807, Bazooka $918,067 and Miscellaneous $356,118.

Timmins Mine project (formerly Timmins West)

Lake Shore Gold owns 100% of the Timmins mine property. One of the claims (which does not contain any portion of the current reserves or resources on the Timmins Mine project) is subject to a 1.5% net smelter returns royalty. The Company can purchase the royalty for $1.0 million.

On July 18, 2008, the Company signed an Exploration Agreement with the Flying Post First Nation and Mattagami First Nation ("the First Nation communities") in order to promote a cooperative and mutually respectful relationship between the communities and Lake Shore Gold as the Company moves forward with exploration and advanced exploration work on the Timmins project and Thunder Creek property ("the properties"). The agreement establishes a framework for ongoing dialogue and consultation, including providing business, employment and training opportunities for members of the two First Nation communities. During the year ended December 31, 2008, the Company issued a total of 100,000 common shares of the Company to the two First Nation communities.

Construction in progress are assets under construction or development that will be used in the advance exploration program. On August 1, 2008, $5,253,325 was transferred from construction in progress to Mining and Milling equipment. During 2007, the Company undertook a review of the carrying values of its construction in progress account. As a result it determined that certain equipment was impaired and charged $1,120,000 to the statement of operations.

Bell Creek Properties

Bell Creek Properties includes the value allocated to mineral properties upon Bell Creek asset acquisition (note 7) and expenditures on the Bell Creek mine and mill and Vogel and Schumacher properties with values as at December 31, 2008 as follows:

Property	**Carrying value**
Mill	$ 18,965,407
Mine	2,003,430
Exploration properties	11,917,936
Bell Creek properties	$ 32,886,773

The Company has acquired 100% of a mining lease on the Vogel property, located in the Timmins Gold Camp, Ontario. The Vogel property consists of one patented "Vet Lot" covering 64 hectares and lies between the Hoyle Pond and Bell Creek gold properties. The property is subject to a maximum 3% net smelter royalty with annual advance royalty payments of US$50,000. A cash payment of $500,000 will be payable once an indicated resource (as defined by NI 43-101) of 600,000 ounces of gold or more is confirmed on the property.

In December 2005, the Company signed a twenty year lease agreement to acquire the Schumacher property (the "Schumacher agreement") located contiguous to and west of Lake Shore Gold's Vogel property. The agreement can be extended, at the request of Lake Shore for as many 20 year terms, as Lake Shore Gold considers necessary to completely exploit all potential resources from the property. The property is subject to a 2% net smelter royalty with advanced annual royalty payments of $25,000 in years 4-6 and $50,000 in years 7-9.

Thunder Creek

The Company has a 60% interest in the Thunder Creek property (earned in the fourth quarter of 2007). As part of the Company's earn-in right, a joint venture is being established with West Timmins Mining Inc., with Lake Shore Gold as the operator, and with all work funded on a 60/40 pro-rata basis (60% being the Company's share). Portions of the property are subject to either a 2% or a 3% net smelter return royalty with an annual pre-production royalty payment of $5,000 adjusted annually for Canadian Price Index.

Blakelock

Lake Shore Gold's 100% owned Blakelock Property is located 140 kilometres northeast of Timmins and covers an area of 35 kilometres along the western extension of the Casa Berardi gold belt.

Ti-pa-haa-kaa-ning property

In January 2007, the Company entered into a 50/50 joint venture agreement with Northern Superior Resources Inc. (formerly Superior Diamonds Inc.), ("Northern Superior"), a related party by virtue of certain common directors, and since June 1, 2008, by virtue of certain common officers as well, for gold exploration on the Company's Ti-pa-haa-kaa-ning property in northwestern Ontario. Under the terms of the agreement, Northern Superior contributed mineral claims, issued 75,000 Northern Superior common shares to Lake Shore Gold and agreed to spend $500,000 on exploration over three years (incurred as at December 31, 2007).

The cost of common shares of Northern Superior, recorded as an available-for-sale investment, were valued at fair value at the time of issue of $34,500. The Company considers the decline on the fair value of the investment at December 31, 2008 as less than temporary and charged the reduction on the value of investment on the consolidated statements of loss and deficit (previously recorded as part of the accumulated other comprehensive loss).

Casa Berardi

On September 6, 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 property"). Under the terms of the agreement,

Lake Shore Gold has a 50% earn-in right in the Casa Berardi property by incurring exploration expenditures of $5 million over a five-year period ($0.6 million in the first year, $1 million in the next three years and $1.4 million in the fifth year). Lake Shore Gold is 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 Gold will each have a 50% interest. Aurizon willl then have the right to earn an additional 10% interest in the specific property by funding the costs of a feasibility study. As at December 31, 2008, the Company has spent a total of $1,776,975 on the Casa Berardi property (gross of estimated Quebec refundable tax credits of $735,545).

During the year ended December 31, 2008, the Company wrote off exploration costs of $Nil (2007 – $439,428 relating to various non-core projects in Ontario (Lacey Lake – $171,156; other projects – $268,272)).

10. CAPITAL LEASE OBLIGATIONS

The Company has entered into equipment and vehicle leases expiring in 2009 and 2012 with interest rates between 6.35% to 13.4%. Estimated minimum annual lease payments at December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
2008	**$ –**	$ 116,433
2009	**$ 775,635**	$ 87,622
2010	**537,148**	–
2011	**115,363**	–
2012	**115,205**	–
Total minimum lease payments	**$ 1,543,351**	$ 204,055
Less: Amount representing interest	**(153,875)**	(22,252)
Present value of capital lease obligations	**$ 1,389,476**	$ 181,803
Less: Current portion	**(670,918)**	(110,016)
Non-current portion	**$ 718,558**	$ 71,787

11. SHARE CAPITAL

a) Authorized unlimited common shares without par value.

b) During the years ended December 31, 2008 and 2007, changes in issued share capital were as follows:

Year ended December 31,		**2008**		2007
Issued and outstanding	**Shares**	**Amount**	Shares	Amount
Balance, beginning of year	**112,684,675**	**$ 112,071,081**	95,655,713	$ 82,857,739
Private placements, net of share issue costs of $646,719*	**61,339,210**	**143,643,100**	–	–
Public offering, net of share issue costs of $1,322,641*	**–**	**–**	12,875,000	25,773,061
Exercise of warrants	**–**	**–**	129,000	103,200
Exercise of options (including transfer of $670,264 (2007 – $1,049,426) from contributed surplus)	**1,231,000**	**1,765,014**	2,369,333	2,417,426
Renunciation of flow-through shares *(note 14)*	**–**	**(4,725,000)**	–	(1,700,000)
Issued as part of resource properties agreements (2008) /on acquisition of resource properties (2007), net of share issue costs of $1,500 (2007 – 12,133)* *(note 9)*	**100,000**	**118,000**	1,655,629	2,619,655
Balance, end of year	**175,354,885**	**$ 252,872,195**	112,684,675	$ 112,071,081

****Share issue costs includes $297,397 (2007 – $681,000) adjustment for recovery of income tax.***

On June 17, 2008, the Company completed a second private placement transaction with Hochschild Mining Holdings Ltd., a subsidiary of Hochschild Mining plc. ("Hochschild"), involving the sale to Hochschild of 33,166,908 common shares of Lake Shore Gold at a price of $2.40 per share, for proceeds of $79,600,579, bringing the Hochschild holding to 35% of the Company's issued and outstanding shares. The transaction follows an initial private placement with Hochschild, completed on February 25, 2008, whereby Lake Shore Gold issued 28,172,302 common shares of the Company at $2.30 per share for a total consideration of $64,689,240. Hochschild has agreed to a standstill with Lake Shore Gold, limiting its shareholdings to no more than 40%, on a fully diluted basis, until November 22, 2010. The funds from both transactions will be used for general corporate purposes including development of the Timmins West mine and Bell Creek mill.

As part of the consideration for the Bell Creek assets, on December 18, 2007, the Company issued 1,655,629 shares to the PJV and 2,000,000 common share purchase warrants exercisable for a period of two years at $2.41 per share.

On April 16, 2007 the Company completed a bought deal financing consisting of 6,875,000 units and 6,000,000 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 11(e)). Each warrant entitled the holder to purchase one common share at a price of $2.50 expiring in 18 months. The warrants expired unexercised on October 16, 2008 (tax liability of $223,000 recorded against contributed surplus (note 11(f)).

c) Stock Options

As at December 31, 2008, the Company had 10,380,000 stock options outstanding of which 2,981,648 are exercisable. Under the Company's stock option plan, the term of all options cannot exceed ten years and the minimum exercise price cannot be less than the closing price of the Company's common shares on the Toronto Stock Exchange, on the last trading day preceding the grant of the option. The maximum number of options issuable by the Company is 10% of the issued and outstanding common shares. The Board of Directors determines the vesting terms of the options which vary between grants, from vesting half on grant date and half in the first anniversary of the grant date to vesting in three equal amounts in a three year period from the grant date.

A summary of the changes in the Company's incentive share option plan for the years ended December 31, 2008 and 2007 are as follows:

	December 31, 2008		December 31, 2007	
	Number of options	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding, beginning of year	**6,380,000**	**$ 1.48**	6,724,333	$ 1.03
Granted	**6,720,000**	**$ 1.26**	2,080,000	$ 1.91
Exercised	**(1,231,000)**	**$ 0.89**	(2,369,333)	$ 0.58
Forfeited	**(1,489,000)**	**$ 1.74**	(55,000)	$ 1.75
Outstanding, end of year	**10,380,000**	**$ 1.37**	6,380,000	$ 1.48
Exercisable, end of period/year	**2,981,648**	**$ 1.48**	4,650,000	$ 1.32

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2008:

Exercise Price Range	**Number of options outstanding**	**Weighted-average remaining years of contractual life**	**Weighted-average exercise price**	**Number of options exercisable**	**Weighted-average exercise price**
$0.00–$0.99	4,205,000	3.9	$ 0.81	1,075,000	$ 0.79
$1.00–$1.49	720,000	4.4	$ 1.26	60,000	$ 1.36
$1.50–$1.99	5,055,000	3.8	$ 1.79	1,446,648	$ 1.83
$2.00–$2.50	400,000	2.0	$ 2.08	400,000	$ 2.08
	10,380,000			2,981,648	

d) Stock-Based Compensation

Stock-based compensation recognized is allocated to consulting and management fees (options granted to consultants), general exploration (options granted to individuals involved in exploration work of a general reconnaissance nature), corporate costs (options granted to corporate employees) and capitalized as part of resource properties and deferred exploration (options granted to individuals involved on the specific projects included in resource properties and deferred exploration). The Company capitalized $473,269 of stock based compensation during 2008.

The allocation on the consolidated statement of loss and deficit for the years ended December 31, 2008 and 2007 was as follows:

Year ended December 31,	**2008**	2007
Corporate costs	**$ 1,187,459**	$ 51,892
Consulting fees	**298,737**	528,590
General exploration	**118,445**	559,405
Total stock-based compensation	**$ 1,604,641**	$ 1,139,887

Stock-based compensation was determined using the Black-Scholes option pricing model. A weighted average grant-date fair value of $0.58 (2007 – $0.90) for options granted was estimated using the following assumptions: no dividends are to be paid; volatility of 62.5% to 66% (2007 – 66.7% to 77.65%); risk free interest rate of 2.39% to 3.35% (2007 – 3.88% to 4.22%); and expected life of 3.5 years (2007 – 3.5 years).

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

e) Warrants

As at December 31, 2008, the Company has 2,000,000 common share purchase warrants outstanding, issued as part of the Bell Creek assets consideration (note 7); the warrants are exercisable for a period of two years until December 17, 2009 at $2.41 per share and were valued at $712,000 using the Black-Scholes option pricing model on the date of issue, using the following assumptions: no dividends are to be paid; volatility of 62%; risk free interest rate of 3.84%; and expected life of 1.9 years.

3,437,500 common share purchase warrants issued as part of a bought deal financing on April 16, 2007 (note 11(b)) with an exercise price of $2.50 expired unexercised on October 16, 2008. The warrants were valued at $1,654,298 and are included in contributed surplus using the Black-Scholes option pricing model on the date of issue, using the following assumptions: no dividends were to be paid; volatility of 64%; risk free interest rate of 4.0%; and expected life of 18 months.

f) Contributed Surplus

Year ended December 31,	**2008**	2007
Balance, beginning of year	**$ 6,796,861**	$ 4,340,102
Stock-based compensation	**2,077,910**	1,139,887
Stock options exercised	**(670,264)**	(1,049,426)
Warrants granted (expired)	**(223,000)**	2,366,298
Balance, end of year	**$ 7,981,507**	$ 6,796,861

g) Accumulated Other Comprehensive Loss

Year ended December 31,	**2008**	2007
Balance, beginning of year	**$ (6,000)**	$ –
Other comprehensive loss, net of tax	**6,000**	(6,000)
Balance, end of year	**$ –**	$ (6,000)

h) Basic and diluted loss per share

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. As such, the weighted average number of shares outstanding is the same for both basic and diluted loss per share for all periods presented.

12. ASSET RETIREMENT OBLIGATIONS

A summary of the changes in the asset retirement obligations for the years ended December 31, 2008 and 2007 is as follows:

Year ended December 31,	**2008**	2007
Balance, beginning of year	**$ 1,227,914**	$ –
Liability acquired with the Bell Creek mine and mill	**–**	1,162,709
Liability incurred on the Timmins West property	**109,698**	65,205
Accretion expense	**123,762**	–
Balance, end of year	**$ 1,461,374**	$ 1,227,914

Asset retirement obligations include $1,162,709, fair value of acquired obligations for site reclamation and remediation on the Bell Creek mine and mill and $174,903, fair value of obligations for site reclamation and remediation on the Timmins West property (advanced exploration). This includes site restoration, rehabilitation and remediation of tailings pond, roads, mine infrastructure and plant and equipment.

The liability will be accreted over time through charges to operating costs and, the associated costs capitalized on the related assets will be amortized over the assets' useful lives once commercial production commences.

The total undiscounted estimated asset retirement liability is $4,792,973 for the Bell Creek mine and mill and $623,965 for the Timmins West property. In determining this amount it has been assumed that the costs will be incurred in twelve to twenty years for the Bell Creek mine and mill and fourteen years for Timmins West property; the costs were discounted using a credit-adjusted risk-free rate of 10%.

In view of the uncertainties concerning the preparation of the cost estimate, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts. Any future changes to the liability as a result of changes in regulations, laws or assumptions used would be recognized prospectively.

13. RELATED PARTY TRANSACTIONS

The following are related party transactions for the years ended December 31, 2008 and 2007:

Fees amounting to $647,320 for the year ended December 31, 2008 (2007 – $603,331) were paid on account of consulting and management services provided by directors and a director who was also an officer until February 29, 2008. The fees paid in 2008 include $500,000 paid to a director as finder fees related to the Hochschild equity transactions (note 11(b)), and have been recorded as share issue costs.

Effective June 1, 2008, the Company entered into an administrative service agreement with Northern Superior, whereby the Company provides to Northern Superior certain corporate governance, finance, investor relations and certain accounting and administrative services. Under the agreement, certain officers of the Company are providing management services to Northern Superior. The Company charged $112,000 to Northern Superior for services during the year ended December 31, 2008. The agreement will be terminated effective April 30, 2009.

During the year ended December 31, 2008, Northern Superior, the joint venture operator for the Ti-pa-ha-kaa-ning property, charged the Company $4,016,610 (2007 – $322,441), for the Company's share for the property expenditures. As at December 31, 2008, there is net amount of $814,815 (2007 – $322,441) due to Northern Superior, of which $1,088,400 is included in accounts payable (2007 - $322,441) and $273,585 in exploration advances and other receivable (2007 - $Nil).

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

14. INCOME TAXES

The provision for income taxes in the consolidated statement of loss and deficit represents an effective rate different than statutory rate of 31.5% (2007 – 34.12%) computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before income taxes due to the following:

Year ended December 31,	**2008**	2007
Loss before income taxes	**$ (7,532,004)**	$ (4,868,440)
Computed income tax recovery at Canadian statutory rates	**2,372,581**	1,661,111
Non-deductible expenses	**(505,462)**	(388,929)
Future tax rate adjustments	**441,863**	2,651,378
Other	**(277,048)**	(144,965)
Future income tax recovery	**$ 2,031,937**	$ 3,778,595

The tax effect of temporary differences that gives rise to the Company's net future income tax liability is as follows:

As at December 31,	**2008**	2007
FUTURE INCOME TAX ASSETS		
Operating losses carried forward	**$ 2,961,593**	$ 1,934,076
Share issue costs	**729,524**	804,011
Asset retirement obligations	**394,571**	331,535
	4,085,688	3,069,622
Less: Valuation allowance	**(201,169)**	(224,821)
Total future income tax assets	**3,884,519**	2,844,801
FUTURE INCOME TAX LIABILITIES		
Resource properties and deferred exploration and property, plant and equipment	**(21,265,678)**	(17,368,293)
Total future income tax liability	**(21,265,678)**	(17,368,293)
Net future income tax liability	**(17,381,159)**	(14,523,492)

The renunciation in 2008 of flow through funds raised in 2007 resulted in $4,725,000 (2007 – $1,700,000) reduction in share capital with a corresponding increase to future income tax liability. During the first quarter of 2008, the Company renounced $15,000,000 of flow through expenditures (funds raised in 2007), of which $5,340,000 were spent on Canadian exploration expenditures ("CEE") as at December 31, 2007 and the remainder was spent in 2008 on eligible CEE.

At December 31, 2008, the Company had loss carry forwards of $11,091,000 available for tax purposes in Canada which expire between 2009 and 2028.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities

Year ended December 31,	**2008**	2007
Resource properties		
Value allocated pursuant to the Bell Creek asset acquisition (2008 – finalization of the purchase price allocation)	**$ 64,229**	$ 4,754,356
Reduction in working capital related to resource properties	**8,606,869**	3,414,148
Write off of resource properties	**–**	(1,559,428)
Depreciation capitalized	**663,618**	43,546
Asset retirement obligations for Timmins project	**109,698**	65,205
Stock-based compensation capitalized *(note 11(d))*	**473,269**	–
Shares issued as part of resource property agreements	**118,000**	–
Share Capital		
2008 – 100,000 shares issued for Timmins project *(note 11)*; 2007 – 1,655,629 common shares issued as consideration for the Bell Creek assets acquisition	**$ 118,000**	$ 2,631,788
Transfer of amounts from contributed surplus *(note 11)*	**670,264**	1,049,426
Future tax recovery on share issue costs	**297,397**	681,000
2008 – 15 million flow through shares renounced (2007 – 5 million) recorded as adjustment to share issue costs *(note 14)*	**(4,725,000)**	(1,700,000)
Interest received	**$ 2,200,403**	$ 1,005,306
Income taxes paid	**$ –**	$ –
Cash and cash equivalents consist of:		
Cash	**$ 25,318,825**	$ 11,914,793
Short term investments	**60,000,000**	–
	$ 85,318,825	$ 11,914,793

16. COMMITMENTS AND CONTINGENCIES

In addition to commitments and contractual obligations under various property agreements (note 8), the Company's existing contractual obligations are as follows:

	2009	2010	2011	2012	2013 and thereafter	Total
Office rent	$ 461,978	$ 454,820	$ 430,666	$ 432,797	$ 607,076	**$ 2,387,337**
Asset retirement obligations	–	–	–	–	5,416,939	**5,416,939**
Capital leases and other	966,635	728,148	306,363	306,185	1,337,000	**3,644,332**
	$ 1,428,613	$ 1,182,968	$ 737,029	$ 738,982	$ 7,361,015	**$ 11,448,608**

17. SUBSEQUENT EVENT

On March 5, 2009, the Company completed a bought-deal financing (the "Financing") pursuant to an underwriting agreement dated February 19, 2009 between the Company and a syndicate of Banks lead by Scotia Capital Inc. (collectively, the "underwriters"). The Company raised gross proceeds of $60,686,970 through the issuance of 30,615,871 common shares of the Company at a price of $1.55 per common share and 6,616,185 flow-through common shares ("Flow-Through Shares") at $2.00 per Flow-Through Share. The Company has granted the underwriters an option (the "over-allotment option"), exercisable in whole or in part in the sole discretion of the underwriters at any time up to 30 days after the closing of the Financing, to raise additional gross proceeds of up to 15% of the Financing in any combination of common shares and Flow-Through Shares (for a maximum of $20,000,000 flow through financing) at the same offering price and on the same terms and conditions as the Financing. Of the Flow-Through shares sold, 343,585 were issued pursuant to the partial exercise on the closing date of the over-allotment portion. The underwriters received a cash commission equal to 5% of gross proceeds and are entitled to a cash commission of 5% of gross proceeds from the exercise of the remainder of the over-allotment option.