GENERAL

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 conditions of Lake Shore Gold Corp. (the "Company" or "Lake Shore Gold"). This MD&A should be read in conjunction with the audited consolidated financial statements of the Company, including the notes thereto, for the years ended December 31, 2008 and 2007 (the "financial statements"), which are prepared in accordance with Canadian generally accepted accounting principles. This MD&A has taken into account information available up to and including March 11, 2009. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise stated.

Lake Shore Gold is a mineral development and exploration company that is currently conducting advanced exploration work at its 100% owned Timmins Mine project ("Timmins Mine" or "Timmins project", formerly referred to as Timmins West). The Timmins Mine project is located 18 kilometers west of Timmins, one of the world's most productive mining camps having produced approximately 75 million ounces of gold over the last century. The Company expects to commence processing development ore from the advanced exploration program by the end of the first quarter of 2009. The surface ramp is being driven to access shallow ore above the 400 Level with deeper ore to be accessed via a shaft currently being sunk to the 710 metre level as part of the advanced exploration program. Ore from the Timmins Mine will be processed at the Company's Bell Creek Mill, located approximately 42 km by road from the Mine. The Mill, which was acquired along with the Bell Creek Mine in December 2007, has been refurbished to a capacity of 800 tonnes per day. The Company plans to increase the Mill's capacity to 1,500 tonnes per day by the end of 2009 or early 2010 as additional feed becomes available. The Company also has an ongoing exploration program, involving a number of prospective properties, through which it has announced the discovery of a number of new gold zones over the last two years. Lake Shore Gold is well financed to achieve its growth objectives, with $85.3 million of cash as at December 31, 2008 and having raised an additional $57.6 million in net proceeds from a bought deal financing which closed March 5, 2009. The Company is a reporting issuer in British Columbia, Alberta, Manitoba, Ontario and Quebec, and trades on the Toronto Stock Exchange ("TSX") under the symbol LSG.

This MD&A contains forward-looking statements. Please refer to the cautionary language at the end of this document.

COMPANY STRATEGY

Lake Shore Gold's strategy is to transition from an exploration company to an emerging gold producer with near-term production and processing assets located in the century-old Timmins gold mining camp. During 2008, significant progress was achieved in moving the Company towards production, with both the Timmins Mine ramp and shaft advancing on schedule to complete advanced exploration work by the end of 2009. Refurbishing of the Bell Creek Mill was completed in December 2008 to a capacity of 800 tonnes per day, with work to expand capacity to 1,500 tonnes per day to be completed by the end of 2009 or early 2010 as additional feed becomes available. Lake Shore Gold has 100% ownership of its principal mineral property, the Timmins Mine project, as well as its Bell Creek Mill processing facility.

The Company also carried out an aggressive exploration program in 2008 in support of future production growth. Encouraging drill results were announced from a number of properties, including at the Bell Creek Mine property, which along with the contiguous Schumacher and Vogel properties, represents an important potential second source of ore in the Timmins camp after the Timmins Mine. Lake Shore Gold is the first company to assemble Bell Creek, Schumacher and Vogel properties, collectively known as the Bell Creek Complex. The Company also took steps in 2008 to transition its management team and board to better reflect its planned emergence as a gold producer, and significantly strengthened its balance sheet to support its aggressive growth plans.

HIGHLIGHTS

Poised to produce in early 2009 with rapid growth going forward

- In early September 2008, the Company commenced driving a ramp from surface as part of an advanced exploration program to access ore above the 400 Level at the Timmins Mine project. By year end, the ramp had advanced 345 metres and is currently at the 640 metre level. The Company expects to commence processing development ore from the Timmins Mine ramp at the Bell Creek mill by the end of the first quarter of 2009. Initially, monthly ore deliveries will be limited, increasing as the year progresses.
- Shaft sinking work commenced at the Timmins Mine property in late July 2008 as part of the advanced exploration program. At December 31, 2008, the shaft had been sunk to the 341 metre level and, since that time, has advanced to the 525 metre level. The 200 Level shaft station was completed at the end of October 2008, with the 400 Level station being finished as of end of January 2009. The Timmins Mine shaft is a fully concrete lined, 5.5 metre diameter shaft that can be easily transitioned to production with a capacity of 2,500 tonnes per day once advanced exploration work is complete.
- Refurbishing work at the Bell Creek Mill progressed throughout 2008 and by year end the Mill was refurbished to a capacity of 800 tonnes per day. The first test run of the processing circuit was conducted late in December resulting in the Company pouring its first gold, on a test basis, on December 31, 2008.

Exploration success in support of future production growth

- During 2008, Lake Shore Gold reported results from 15 holes (14,583 metres) at its 100% owned Bell Creek Mine property, which from 1986 to 1991 produced 112,739 ounces of gold. Included in the most recent results, released in December, was the discovery of four new extension zones to the existing Bell Creek mineralization, one to the east, two to the west and one at depth. The December results confirmed that the high-grade gold lenses outlined during historic mining at Bell Creek extend at least 900 metres below surface (600 metres below the existing mine workings) and 400 metres along strike (200 metres to both the east and west of the existing mineralization).
- At the 60% owned Thunder Creek joint venture property, immediately adjacent to the Timmins Mine project, the Company reported results from a total of 14 holes (6,920 metres) during 2008. In December, the Company announced encouraging results from the first nine holes (4,000 metres) of a 22,000 metre diamond drill program, which commenced in August. The results include an intercept of 11.20 grams per tonne gold over 10.40 metres at a depth of 575 metres, the deepest intercept to date, including a high-grade zone of 25.99 Au g/t over 3.00 metres and another interval averaging 7.79 grams per tonne gold over 4.55 metres, all of which are in a broader zone averaging 5.90 grams per tonne gold over 26.35 metres. The zone remains open at depth and along strike and lies within 750 metres from the shaft currently being developed as part of the advanced exploration program at the Company's Timmins Mine project.
- In the fourth quarter of 2008, the Company announced results from the first phase of its 2008 drill program at its Casa Berardi optioned property. Lake Shore Gold is earning a 50% interest in the property through a joint venture agreement with Aurizon Mines Ltds. The results, which were released on October 23, 2008, included the discovery of a new gold zone, with the best intercept being 13.03 grams per tonne gold over 6.45 metres within a broader intersection of 8.58 grams per tonne gold over 10.4 metres in Hole CE-08-03. The new intercept is open both at depth and laterally.

Building a management team and board for a mid-tier producer

- During 2008, the Company made numerous additions to its management team and board of directors, to significantly strengthen its operating capabilities and support its transition from an exploration company to gold producer. Anthony Makuch joined the Company as President and Chief Executive Officer effective March 1, 2008, bringing to Lake Shore Gold approximately 30 years of mine development and operating experience, most recently as Chief Operating Officer of FNX Mining Company. Mr. Makuch had been an independent director since May 2007. Among other management additions were Brian Hagan as Executive Vice-President responsible for operations, Mario Stifano as Vice-President and Chief Financial Officer, and Eric Kallio as Vice-President Exploration. Joining the Board in 2008 were: Arnold Klassen, a Chartered Accountant with 30 years of experience in accounting, audit and tax (approximately 25 years in mining); Jorge Benavides, formerly Senior Vice-President, Corporate Development with Hochschild Mining plc ("Hochschild"); Ignacio Rosado, Chief Financial Officer of Hochschild; and Jonathan Gill, who brings to the Company 45 years of mining experience, largely in senior mine management roles with Inco Limited.

Building a balance sheet to fund the Company's growth plans

- In February 2008, Lake Shore Gold entered into a strategic alliance agreement with Hochschild. Consistent with the terms of this agreement, two private placement transactions were completed through which Hochschild acquired 61,339,210 common shares of the Company for total proceeds of $144.3 million, representing 35% of issued and outstanding shares at the time the second private placement closed on June 17, 2008. On June 23, 2008, Hochschild announced that it had acquired an additional 11.8 million shares of Lake Shore Gold at $1.82 per share through a private transaction with FNX Mining Company, increasing Hochschild's interest in the Company to approximately 40% on a fully diluted basis. Under terms of the strategic alliance agreement, Hochschild entered into a standstill arrangement which limits its shareholdings to 40%, on a fully diluted basis, until November 22, 2010.
- In May 2008, the Company announced a capital spending budget for 2008 of $75.0 million of which, $63.6 million related to projects and $11.4 million to exploration. Project spending in 2008 totaled $56.3 million, $7.3 million below the $63.6 million budget, mainly reflecting unused contingency (spending for 2008 excludes $2.2 million of non-cash expenditures). Exploration expenditures totaled $15.7 million compared to a budget of $11.4 million, with higher than budgeted spending reflecting exploration success throughout the year.
- At December 31, 2008, Lake Shore Gold had cash and cash equivalent of $85.3 million and working capital of $71.4 million. The Company recorded a net loss of $5.5 million for the year ended December 31, 2008.

Subsequent Event

- On March 5, 2009, the Company closed a bought deal equity financing (the "Financing") involving the issuance of 30,615,871 common shares at a price of $1.55 per share and 6,616,185 flow-through common shares at a price of $2.00 per share for gross proceeds of $60.7 million ($57.6 million net of underwriter commissions). Of the flow through common shares sold, 343,585 were issued pursuant to the partial exercise on the closing date of the over-allotment option granted to the underwriters. Issued and outstanding common shares following the completion of the financing totaled 212,586,941 shares.

OUTLOOK

The year 2009 is expected to be an important year for Lake Shore Gold as it progresses towards becoming a gold producer. Initial processing of development ore from the advanced exploration program at the Timmins Mine project is targeted to commence by the end of this month with output expected to gradually increase to 500 tonnes per day by the end of 2009.

The Company expects to sink the Timmins shaft to the 710 metre level, complete its initial bulk sample and conduct underground diamond drilling before the end of the year. A total of 30,000 ounces of gold is targeted for 2009 from ore deliveries from the Timmins Mine to the Bell Creek Mill. The mill's processing capacity, currently 800 tonnes per day, is expected to expand to 1,500 tonnes per day when the secondary ball mill is commissioned by the end of 2009 or early 2010 as additional feed becomes available.

Project spending in 2009 is forecast at $89.0 million, including exploration. The 2009 forecast is approximately $7.0 million higher than the previously announced budget for the year, reflecting management's decision to accelerate the timing of work at the Bell Creek Complex. Based on its year-end 2008 cash position of $85.3 million, the proceeds from planned gold sales in 2009, and net proceeds from the recently completed financing, Lake Shore Gold is positioned to finance its currently planned activities for 2009 and 2010, including bringing the Timmins Mine to commercial production, advancing the Bell Creek and Vogel projects and completing other planned operating, development and exploration activities.

PROPERTY DEVELOPMENTS

Resource Property and Deferred Exploration Expenditures (in $'000)		Year ended December 31, 2008*
Timmins Mine	$	**40,988**
Bell Creek Mill and Mine		**8,820**
Bell Creek properties (exploration)		**4,726**
Thunder Creek Joint Venture (Company's share)		**962**
Blakelock – Little Abitibi properties		**1,458**
Casa Berardi		**1,041**
Ti-pa-haa-kaa-ning (Company's share)		**4,158**
Other projects		**913**
Total expenditures	**$**	**63,067**

**Resource property expenditures represent the change in the carrying value of the resource properties and deferred exploration for the year ended December 31, 2008 (for details refer to note 9 to financial statements). In addition to the above expenditures, the Company spent $11.1 million on equipment for the Timmins Mine, recorded as property, plant and equipment.*

Expenditures in 2008 include $2.2 million of non-cash charges.

EXPLORATION EXPENDITURES

Included in resource property and deferred exploration expenditures for the year ended December 31, 2008, were exploration expenditures of $15.7 million, of which $4.2 million related to the Company's share of expenditures for the Ti-pa-haa-kaa-ning project, $4.7 million to Bell Creek, Vogel and Schumacher, $2.4 million to Timmins Mine project, $1.0 million to Casa Berardi, $1.5 million to Blakelock and Little Abitibi, $1.0 million to Thunder Creek and $0.9 million to other projects. Exploration spending for 2008 is higher than budget of $11.4 million announced as part of the May 2008 budget, with the higher amount reflecting follow-up work after encouraging results during the year from a number of properties.

In 2009, the Company expects to incur approximately $12.0 million of exploration expenditures of which approximately 75% will be directed towards drilling at the Timmins project and Bell Creek, Vogel and Schumacher properties, and the remainder on other properties. The Company may adjust the planned expenditures based on exploration results.

BELL CREEK MILL

On December 18, 2007, the Company acquired the Bell Creek mine and mill from the Porcupine Joint Venture. In early 2008 work commenced to refurbish the Bell Creek Mill, which had been on care and maintenance since 2002. The mill became operational in December, 2008 with a capacity of 800 tonnes per day, to be increased to a capacity of 1,500 tonnes per day by the end of 2009 or early 2010, or as additional feed becomes available. Going forward, an expansion of the mill to 2,500-3,000 tonnes per day is anticipated as the Company's production profile increases.

The Bell Creek Mill is a conventional CIP gold circuit, involving crushing and grinding, gravity and leaching for gold recovery, producing dore bars for shipment. The mill also includes associated buildings and surface infrastructure, offices and an approved tailings area.

Expenditures at the Mill in 2008 totaled $8.6 million compared with a budget of $10.0 million. Major components of the work program in 2008 to refurbish the mill included the crushing plant, the primary ball mill, the CIP tanks, leach tanks, piping and conveyors within the mill circuit, the Knelson concentrator, the thickener, carbon kiln, the gold furnace, general electrical upgrades throughout the mill, and upgrades to the tailings area.

The overall condition of the mill was as expected and no major issues were encountered during the refurbishment work.

TIMMINS MINE PROJECT

Lake Shore Gold's 100% owned Timmins Mine project is located north of the Porcupine-Destor Fault Zone, 18 kilometres west of the city of Timmins. The Timmins Mine deposit is the first significant gold discovery west of the north-south trending Mattagami River Fault, and may represent a new, highly-prospective area of gold mineralization within the century-old Timmins gold camp. The project reserve estimate (probable category) totals 3.4 million tonnes at 7.59 grams per tonne containing 0.83 million ounces on a cut basis. A sensitivity analysis has been conducted based on the uncut mineral resource gold grades and the results were 3.8 million tonnes at 10.40 grams per tonne containing 1.20 million ounces.

During the year ended December 31, 2008, the Company incurred $41.0 million of expenditures on the Timmins Mine project (including advanced exploration, ramp development and exploration drilling expenditures, as detailed below). In addition, the Company incurred costs of $11.1 million for property, plant and equipment.

Advanced Exploration Program

The Company is carrying out an advanced exploration program for delineation of bulk sampling of the Footwall, Ultramafic and Main Zones of the property, along with supporting an underground diamond drilling program to both expand the currently identified probable reserve and identify new resources. This work involves shaft sinking and the collaring of the 200 metre, 400 metre, 525 metre and 650 metre levels from the shaft. A budget of $38.2 million was announced in May for the Timmins Mine project (excluding ramp) in 2008 to fund the advanced exploration program.

During the year ended December 31, 2008, the Company's advanced exploration expenditures at Timmins totaled $37.8 million, of which $5.8 million was property, plant and equipment.

Following completion of the headframe, hoistroom and other surface infrastructure during the second quarter of 2008, the shaft sinking program was undertaken at the end of July using Dumas Contracting Ltd. ("Dumas"), a Timmins-based mining services contractor. At December 31, 2008, the shaft had been sunk to the 341 metre level and, since that time, has advanced to the 525 metre level with the 200 Level shaft station having been completed by the end of October and the 400 Level station being completed in January 2009.

Ramp for Mining Above 400 Level

In early September, the Company commenced an advanced exploration program for the development of a ramp to access ore at the Timmins project above the 400 Level. The ramp is being driven from surface to facilitate development in the veins and main zones with ore to be processed at the Bell Creek mill. It will also provide ventilation and an escape raise to the lower depths of the mine. An internal study will be completed at the end of the program and, pending favorable results, initial ore deliveries from the ramp are expected to begin before the end of the first quarter of 2009. At December 31, 2008 the ramp had advanced approximately 345 metres and has currently been driven approximately 640 metres (to a vertical depth of close to 100 metres).

Expenditures related to the ramp during 2008 were $11.9 million, of which $5.3 million represented expenditures recorded as property, plant and equipment. The $11.9 million of ramp expenditures in 2008 was below the budget of $14.3 million due largely to lower than budgeted development costs.

Exploration

Gold mineralization at the Timmins Mine project has now been delineated to a depth of 1,200 metres below surface, with alteration, veining and mineralization within the Footwall Deposit and Ultramafic Deposit remaining open at depth. This is highlighted by the deepest drill intercepts including 65.65 grams per tonne gold over 4.0 metres within the Ultramafic Zone and 7.62 grams per tonne gold over 5.8 metres on the Footwall Zone.

During 2008, 8,943 metres were completed in forty four holes (931 metres in three holes completed during the fourth quarter of 2008). Most of this drilling was focused on further testing the volcanic-to-sediment contact zone south of the Timmins deposit and in close proximity to the new surface ramp. Assay results received were generally low. A deep-drilling exploration program which was targeting the potential extension of the deposit 150 to 200 metres further downplunge had to be abandoned in early December due to excessive deviations and other technical difficulties. Expenditures related to exploration during 2008 were $2.4 million.

On July 18, 2008, Lake Shore Gold signed an Exploration Agreement with the Flying Post First Nation and Mattagami First Nation 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. The agreement establishes a framework for ongoing dialogue and consultation, including providing business, employment and training opportunities for members of the two First Nations communities.

BELL CREEK MINE AND VOGEL/SCHUMACHER PROPERTIES

The Company incurred expenditures of approximately $4.7 million on the Bell Creek, Vogel and Schumacher properties (collectively known as the Bell Creek Complex) during 2008, of which $3.8 million was spent on Bell Creek mine exploration (refer below).

Bell Creek Mine

The Company acquired the Bell Creek mine property in December 2007. Bell Creek is a former operating mine, which produced 112,739 ounces of gold from 1986 to 1991. The mine was developed from surface via a three compartment timbered shaft to a depth of 280 metres. The shaft is currently flooded to surface. From the shaft, mine levels were developed to the ore zones, and a ramp was developed from the lowest mine level to access ore below the current shaft depth. The mine was serviced by the shaft with an 8.0 foot diameter double drum hoist, and includes a 30 metre high headframe with a 300 tonne coarse ore bin to a loadout facility.

Based on work done prior to the mine being placed on care and maintenance, resources remaining at the time the mine was placed on care and maintenance included an indicated resource of 190,000 tonnes at a grade of 8.25 grams gold per tonne containing 50,641 ounces and an inferred resource of 346,000 tonnes at a grade of 7.70 grams gold per tonne containing 85,888 ounces. The Company does not treat these as current resources and more work must be carried out to identify a mineral resource for the purposes of National Instrument 43-101 ("NI 43-101").

During 2008, evaluations of the hoisting system, headframe and associated facilities were conducted to estimate costs and establish a schedule for re-commissioning the mine. An internal study is ongoing for an advanced underground exploration program that would include dewatering the mine and undertaking underground development and diamond drilling.

In February 2008, a diamond drill program was commenced at Bell Creek. In July 2008, the Company reported encouraging results from the first five holes of the program. Included in the results was the discovery of a new gold zone (the "South Zone"), with intersections of 5.39 grams per tonne gold over 6.05 metres (including 11.70 grams per tonne gold over 1.7 metres) on hole BC-08-02, and the extension of the known Bell Creek gold mineralization by approximately 350 metres below the existing Bell Creek mineralized zone and by approximately 175 metres to the west, with intersections of 5.95 grams per tonne gold over 8.1 metres (including 8.65 grams per tonne gold over 0.45 metres, 9.28 grams per tonne gold over 0.70 metres and 33.26 grams per tonne gold over 0.80 metres) on hole BC-08-05.

On December 10, 2008, the Company released additional drill results from Bell Creek involving another ten holes from the same drill exploration program. Included in the results is the discovery of four new extension zones to the existing Bell Creek mineralization, one to the east, two to the west and one to depth of the existing mine workings, with intersections of 7.60 grams per tonne gold over 6.30 metres (including 39.72 grams per tonne gold over 0.30 metres and 8.66 grams per tonne gold over 3.80 metres), 8.62 grams per tonne gold over 2.00 metres, 9.34 grams per tonne gold over 1.00 metre, 17.31 grams per tonne gold over 1.00 metre and 7.64 grams per tonne gold over 2.10 metres. Visible gold was noted in the eastern gold extension. The December drill results confirm that the pattern of high-grade gold lenses outlined during previous mining at Bell Creek extend at least 900 metres below surface (600 metres below the existing mine workings) and 400 metres along strike (200 metres to both the east and west from the existing mineralization).

At the end of 2008, a total of 18 holes had been drilled or were in progress at Bell Creek. Drilling during the last quarter of the year included a total of 14 holes and 5,464 metres of drilling with the bulk of the holes within 800 metres of the east boundary and directed along a northerly azimuth. Logging and assaying of these holes is still in progress.

Schumacher/Vogel Properties

The Company owns 100% of a mining lease on the Vogel property. The property consists of one patented "Vet Lot" covering 64 hectares and lies contiguous to Lake Shore Gold's Schumacher and Bell Creek properties to the west and Goldcorp's Hoyle Pond mine property to the east. The property is subject to a maximum 3% net smelter royalty with annual advance royalty payments of US$50,000. A cash payment of $0.5 million will be payable once an indicated resource (as defined by NI 43-101) of 600,000 ounces of gold is confirmed on the property.

Surface drilling on the Vogel property was initiated during the third quarter of 2008 to test the depth potential of the known mineralization. At the end of the year, two holes with two wedge cuts were completed for a total of 3,314 metres. The drill holes reached to depths of up to 1000 metres below surface along the favourable north mafic/ultramafic contact. Final assay results for this core should be available early in the second quarter of 2009.

In December 2005, the Company signed a twenty year lease agreement to acquire the mining and surface rights to 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 Gold, for as many 20-year terms as the Company 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 each year thereafter.

On the Schumacher property a total of 660 metres of surface diamond drilling in five short holes during the second and third quarters of 2008 failed to intersect mineralization and did not indicate any areas of shallow overburden which could be used for collaring an exploration portal.

Vogel Assessment and Environmental Permitting

Based on work completed to date to evaluate mineralized zones above the 320 metre level at Vogel, the Company is now assessing a plan to drive a ramp from Bell Creek, through mineralization on that property, to Vogel which is situated approximately 800 metres away. This approach would allow the Company to benefit from not having to collar a ramp in thick saturated overburden encountered on the Vogel property.

THUNDER CREEK

The Company has a 60% interest in the Thunder Creek property (earned in the fourth quarter of 2007). 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% underlying net smelter return royalty with an annual pre-production royalty payment of $5,000. The Thunder Creek property consists of 58 claim units, contiguous to and southwest of Lake Shore Gold's 100% owned and operated Timmins project and is underlain by an ultramafic intrusive body similar to the one hosting the Ultramafic Zones at the Timmins deposit.

During 2008, the Company incurred, on behalf of the joint venture, $1.7 million of expenditures on the property (the Company's share was $1.0 million). On March 31, 2008, the Company announced additional assay results from the ongoing diamond drill program on the property, including an intersection 380 metres down plunge containing 8.57 grams per tonne gold over 9.00 metres in Hole TC07-43. Other significant intersections include 27.21 grams per tonne gold over 0.90 metres, 8.52 grams per tonne gold over 2.05 metres and 6.33 grams per tonne gold over 2.60 metres.

On August 5, 2008, the Company announced the commencement of a 22,000 metre diamond drill program at the Thunder Creek property in order to further expand and infill the high-prospective Rusk Zone, and to test the sediment-ultramafic contact as well as a number of other high priority gold targets across the property.

On December 16, 2008, the Company announced encouraging results from the first nine holes (4,000 metres) of its ongoing 22,000 metre drill program. The results include an intercept of 11.20 grams per tonne gold over 10.40 metres in drill hole TC08-54 at a vertical depth of 575 metres, the deepest intercept to date. Included within this intercept are a high-grade zone of 25.99 grams per tonne gold over 3.00 metres and another interval averaging 7.79 grams per tonne gold over 4.55 metres, all of which are in a broader zone averaging 5.90 grams per tonne gold over 26.35 metres. The zone remains open at depth and along strike and lies within 750 metres from the shaft currently being developed as part of the advanced exploration program at the Company's Timmins project.

The TC08-54 intercept displays a distinct style of mineralization, which could represent the upper portion of a new porphyry-hosted sub-zone. The intercept extends the Rusk Zone by at least 160 metres further down-plunge from the hole TC07-43, with other intercepts extending it by at least another 100 metres further up-plunge and closer to surface. The depth of the intercept in hole TC08-54 is similar to the depth at the top of the best mineralized zones at the Company's adjacent Timmins project.

At the end of 2008, 20 holes had been completed and one was still in progress, for a total of 10,570 metres drilled. Of the 10,570 metres of drilling, 16 holes and 7,650 metres were completed since the beginning of August 2008 as part of the newly expanded 22,000 metre drill program, which is expected to be completed by around mid-2009. Most drilling for the 22,000 metre program was conducted using two drill rigs, with one drill testing the Rusk Shear Zone along strike and at shallow depths (generally less than 200m below surface), and the other drill exploring for the down-plunge extension of the Rusk Zone. Assay results for 9 holes from the 22,000 metre program were released on December 16, 2008. Assays from the remaining 7 holes are expected in late February.

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.

An extensive reverse circulation ("RC") drill program was conducted during the first quarter of 2008, including drilling of 59 RC holes primarily located on the central part 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. No significant gold anomalies have been identified from till samples collected during this program.

Work in the second half of 2008 included mobilization of a diamond drill to the Porphyry creek area of the property and commencement of a 7 hole 2,825 metre drill program. The drilling was designed to test a hydrothermally altered sequence of volcanic rocks and felsic intrusive located immediately north of the Casa Berardi Break and surrounding previous interesting drill results obtained by Lake Shore Gold in 2006. All of the new drilling was completed by late November and all core has now been logged and shipped to the assay laboratory for gold analysis. During the year ended December 31, 2008, the Company spent $1.4 million on the property.

CASA BERARDI

The Company has a 50% earn-in right on the Casa Berardi property, as provided in a joint venture agreement with Aurizon Mines Ltd. ("Aurizon"), entered into during the third quarter of 2007. The optioned property lies to the east and west of Aurizon's wholly owned Casa Berardi mining operations, including the West Mining Complex and East Mine and Mill Complex. Lake Shore Gold can earn a 50% interest in the property by spending $5.0 million over five years with a firm commitment of $0.6 million in the first year. The Company is the operator during the earn-in period.

Two diamond drills and one RC drill were active during the first half of 2008. At the end of the second quarter, 12 diamond drill holes had been completed for a total of just over 4,470 metres. Seventy-nine RC drill holes had also been completed testing various structures for new areas of mineralization for future follow up.

On October 23, 2008, the Company announced results from the 12 drill holes completed during the first half of 2008. The results included the discovery of a new gold zone, with the best intercept being 13.03 grams per tonne gold over 6.45 metres within a broader intersection of 8.58 grams per tonne gold over 10.4 metres ("Hole CE-08-03"). Hole CE-08-03 is the deepest mineralized intersection at a vertical depth of 247 metres and is located approximately 90 metres below a historic intercept of 11.11 grams per tonne gold over 2.24 metres. The new intercept is open both at depth and laterally.

The new zone lies to the east of Aurizon's mining operations and covers a total strike length of more than 500 metres from west to east. Included within the new zone are three high-potential sub-zones which trend approximately 260 degrees azimuth and dip moderately south (i.e. 60-75 degrees). Better mineralization displayed increased wall rock alteration and increased sulphides, with some quartz and sulphide stringers at a shallow angle to the core axis, an occurrence also noted at Aurizon's Casa Berardi mines.

As of December 31, 2008, the Company has spent a total of $1.8 million on the Casa Berardi property (net of estimated Quebec refundable tax credits of $0.7 million) and fulfilled the earn-in expenditures commitments to the end of 2009.

In February 2009, plans were in progress to commence a new 4 hole 1,500 metre program of diamond drilling to continue testing targets at the Casa Berardi East Block of claims where favourable results were obtained in drilling from 2008.

TI-PA-HAA-KAA-NING

In January 2007, Northern Superior Resources Inc. ("Northern Superior"), a related party to the Company by virtue of certain common directors and, since June 1, 2008, by virtue of certain common officers, entered into a 50/50 joint venture agreement for gold exploration on Lake Shore Gold'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 com¬mon shares to Lake Shore Gold and agreed to spend $0.5 million on exploration over three years, including a firm commitment of $50,000 in the first year. Northern Superior is the operator on the property. During 2007, Northern Superior spent $1.1 million of exploration expenditures on the prop¬erty and earned its 50% interest in the property.

On August 6, 2008, Northern Superior announced the results of the winter-spring drill program at the Ti-pa-haa-kaa-ning project and the launch of a new exploration program to involve overburden and bedrock mapping to be followed by a second phase of drilling. The exploration programs were aimed at identifying the source of gold grains associated with a highly-prospective, two kilometre long dispersal apron, first announced in the fourth quarter of 2007. The winter-spring 2008 drill program intersected several narrow gold-bearing structures, but with generally low grades and narrow widths.

On January 6, 2009, Northern Superior announced the results of drilling in the summer and fall of 2008, including the discovery of a new gold showing and several gold-bearing ductile shear zones at the head of the gold grain-in-till dispersal apron in the Big Dam area of the Ti-pa-haa-kaa-ning property. The new gold showing, discovered from work completed during the summer drill program, consisted of several separate quartz-veins hosted by granodorite that returned 3.34 grams per tonne gold and 8.9 grams per tonne gold, both over 0.34 metres.

During 2008, Lake Shore Gold's share of expenditures at the Ti-pa-haa-kaa-ning totaled $4.2 million.

On July 10, 2008, Northern Superior signed an Early Economic Benefits Agreement ("EEBA") with the Neskantaga First Nation. The EEBA allows Northern Superior to continue exploration work at Ti-pa-haa-kaa-ning for three years or until the exploration program proceeds to an advanced exploration stage involving the delineation of a resource.

RESULTS OF OPERATIONS

Year ended December 31, (in $'000)	**2008**	2007
Corporate costs	**$ 5,830**	$ 812
Consulting and management fees	**1,096**	1,399
General exploration	**830**	1,103
Shareholder information	**579**	459
Legal and accounting	**434**	233
Unrealized loss on investment	**32**	–
Write-off of resource properties and deferred exploration	–	1,559
Depreciation of property, plant and equipment	**144**	16
Accretion of asset retirement obligations	**124**	–
Travel	**685**	309
Loss before interest and other income and income taxes	**(9,752)**	(5,889)
Interest and other income, net	**2,220**	1,020
Recovery of income taxes	**2,032**	3,779
Net loss for the year	**$ (5,500)**	$ (1,090)

Net loss for the year ended December 31, 2008 totaled $5.5 million or $0.04 per share compared to a net loss of $1.1 million or $0.01 per share for 2007. The higher net loss in 2008 mainly resulted from increased costs in support of capital programs and growth plans as the Company transitions from an exploration company to a gold producer, as well as from lower income tax recovery. These factors were partially offset by increased interest and other income, reflecting higher cash balances, lower consulting and management fees and no write-offs of resource properties in 2008 compared to $1.6 million in 2007.

The Company reports stock-based compensation by expensing the amount on the consolidated statement of loss and deficit (allocating it to i) corporate costs for corporate employees, ii) consulting fees, iii) general exploration for individuals involved in work of a general reconnaissance nature) and capitalizing in resource properties and deferred exploration for individuals involved in specific projects. The Company capitalized $0.5 million 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 ($'000):

Year ended December 31,		**2008**		2007
Corporate costs	**$**	**1,187**	$	52
Consulting fees		**299**		529
General exploration		**118**		559
Total stock-based compensation	**$**	**1,605**	$	1,140

The stock-based compensation expenditures were 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 increase in the stock-based compensation expense in 2008 compared to the same period in 2007 is mostly due to more options issued in 2008 reflecting the increase in the number of employees and the Company's activities, partially offset by a reduction in the weighted average grant-date fair value.

Corporate costs in 2008 increased by $5 million compared to 2007. Excluding the impact of stock-based compensation expense, corporate costs in 2008 increased by $3.9 million compared to 2007. The increase is due mainly to increased costs in support of capital programs and growth plans as the Company transitions from an exploration company to a gold producer.

General exploration expenditures, which include expenditures of a general reconnaissance nature, that are not project specific or do not result in the acquisition of resource properties, in 2008 decreased by 0.2 million, compared to 2007; excluding impact of stock-based compensation expenses, general exploration expenditures increased by $0.2 million in 2008 as compared to 2007. The increase in general exploration expense reflected the Company's increased exploration activity in 2008.

Consulting and management fees were $1.1 million in 2008 compared to $1.4 million in 2007. Excluding the impact of allocated stock-based compensation expense, consulting and management fees in 2008 were $0.8 million and were comparable to 2007.

Travel expenses in 2008 increased by $0.4 million compared to 2007, while legal and accounting fees increased by $0.2 million. Both increases were due primarily to increased business activity as the Company moved forward with its development and growth plans.

Shareholder information costs in 2008 increased by $0.1 million compared to 2007. The increase was due to higher regulatory and transfer agent fees, as well as higher expenditures related to investor relations activities.

During 2007, the Company undertook a review of the carrying values associated with its construction in progress account. As a result, it determined that the value of certain equipment was impaired and therefore wrote down the carrying value of this equipment by $1.1 million. In addition, the carrying value of certain non-core properties in Ontario was written off ($0.5 million). There were no such write-offs in 2008.

Interest and other income, net, in 2008 was $2.2 million compared to $1 million in 2007. The increase was due to higher cash balances resulting mainly from private placement transactions with Hochschild Mining Holdings Ltd ("Hochschild") during the first half of 2008.

The future tax liabilities of $17.4 million in 2008, increased by $2.9 million compared to 2007. The increase is mostly due to the tax effect of the renunciation in 2008 of flow through funds raised in 2007 ($4.7 million increase in future tax liability in 2008 as compared to $2.5 million in 2007 and recorded as an adjustment to share capital) partly offset by the tax benefits of deductible expenses and share issue costs incurred (tax liabilities decreased by $2.3 million during 2008 compared to $2.5 million in 2007). During the first quarter of 2008, the Company renounced $15 million of flow through expenditures (funds raised in 2007), of which $5.3 million were spent on Canadian exploration expenditures ("CEE") as at December 31, 2007 and the remainder was spent in 2008, on eligible CEE expenditures.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial data has been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's audited financial statements.

Year ended December 31, (in $'000s except for loss per share and number of shares issued and outstanding)	**2008**	2007	2006
Financial Results:			
Interest and other income, net	**$ 2,220**	$ 1,020	$ 649
Net loss	**(5,500)**	(1,090)	(2,251)
Loss per share* – basic and diluted	**(0.04)**	(0.01)	(0.02)
Financial Position:			
Cash and cash equivalents	**85,319**	11,915	13,518
Working capital	**71,423**	8,552	13,152
Property, plant and equipment (net of accumulated amortization)	**13,703**	507	56
Resource properties and deferred exploration	**172,108**	109,041	79,338
Total Assets	**279,922**	126,686	93,240
Long term capital lease obligations	**719**	–	–
Future tax liabilities	**17,381**	14,523	17,035
Asset retirement obligations	**1,461**	1,228	–
Share capital	**252,872**	112,071	82,858
Contributed surplus	**7,982**	6,797	4,340
Deficit	**(18,277)**	(12,776)	(11,687)
Number of shares issued and outstanding	**175,354,885**	112,684,675	95,655,713

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

SUMMARY OF QUARTERLY RESULTS

The following selected financial data has been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's interim consolidated financial statements:

Fiscal quarter ended	**December 31, 2008**	September 30, 2008	June 30, 2008	March 31, 2008
Interest and other income, net	**$ 600**	$ 892	$ 412	$ 316
Net loss	**(2,297)**	(1,078)	(1,579)	(546)
Net loss per share* – basic and diluted	**$ (0.01)**	$ (0.01)	$ (0.01)	$ (0.00)

Fiscal quarter ended	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Interest and other income, net	$ 94	$ 411	$ 347	$ 168
Net income (loss)	270	300	(687)	(972)
Net income (loss) per share* – basic and diluted	$ 0.00	$ 0.00	$ (0.01)	$ (0.01)

**Net (loss) income per share is calculated based on the weighted average number of shares outstanding.*

Lake Shore Gold recorded net loss of $2.3 million or $0.01 per common share during the fourth quarter of 2008 compared with a net income of $0.3 million or $0.00 per share for the same period in 2007. The higher net loss in 2008 mainly resulted from increased costs in support of capital programs and growth plans as the Company transitions from an exploration company to a gold producer. These factors were partially offset by increased interest and other income, reflecting higher cash balances, lower consulting and management fees and no write-offs of resource properties in 2008 compared to $1.6 million in 2007 (as discussed above under "Results of Operations"). The increase on the fourth quarter of 2008 loss as compared to the third quarter of 2008 is due to higher corporate costs and lower interest income partly offset by higher tax recovery.

In 2008, with the exception of the first quarter, the Company recorded higher net losses as compared to 2007 reflecting the increased business activity as the Company moved forward with its development and growth plans. The lower net losses in the first quarter of 2008 as compared to the first quarter of 2007 are primarily due to a higher tax recovery recorded in the first quarter of 2008.

The last two quarters of 2007 generated net income compared to net losses during the first two quarters of the same year, primarily due to higher future income tax recovery, mainly a result of reductions in substantially enacted future income tax rates and higher deductible expenditures incurred.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Lake Shore Gold is not in commercial production and accordingly it does not generate cash from operations. Financing for the Company has come from raising capital through equity issues. At December 31, 2008, the Company had cash of $85.3 million (2007 - $11.9 million) and working capital of $71.4 million (2007 - $8.6 million).

Cash used in operating activities during 2008 was $4.3 million (2007 – $2.7 million). Recovery of income taxes, stock-based compensation expense and changes in non-cash working capital items make up the principal amounts that reconcile the consolidated statements of loss to the consolidated statements of cash flows from operating activities.

The increase in exploration advances and other receivables ($3.9 million at December 31, 2008 compared to $1.4 million at December 31, 2007) and accounts payable and accrued charges ($17.1 million at December 31, 2008 compared to $4.7 million at December 31, 2007) reflected the increased activity of the Company in 2008 (especially work on Timmins Mine project advanced exploration).

Cash used in investing activities in 2008 totaled $66.5 million (2007 – $27.1 million). The Company's principal investing activity is the acquisition, exploration and advanced exploration of its resource properties. During 2008, the Company incurred the majority of its resource property expenditures (including changes in working capital related to resource properties and deferred exploration at December 31, 2008) on advanced exploration and field equipment for the Timmins project, refurbishing work on the Bell Creek mill and on drilling at its various exploration properties and on the Bell Creek mine (for details, refer to "Property Developments" section of this MD&A). Included in investing activities are $1.1 million (2007 – $3.8 million) for irrevocable letters of credit posted by the Company related to different activities in the Timmins project.

On June 17, 2008, the Company completed a second private placement transaction with 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 $79.6 million. The transaction followed an initial private placement with Hochschild, which was completed on February 25, 2008, in which the Company raised $64.7 million by issuing to Hochschild 28,172,302 common shares at a price of $2.30 per share. The funds are being used for general corporate purposes including advanced exploration work at the Timmins West mine, the refurbishing of the Bell Creek mill and exploration expenditures.

On May 15, 2008, the shareholders of the Company approved the termination of the shareholder's right plan.

The Company also received $1.1 million in 2008 from the exercise of 1,231,000 stock options.

Subsequent to year end the Company completed a bought deal financing and on March 5, 2009 received $57.6 million (net of underwriter commissions). In management's view and based on approved budgets, the Company is positioned to finance its current planned activities for 2009 and 2010, including bringing the Timmins Mine to commercial production, advancing the Bell Creek and Vogel projects and completing other planned operating, development and exploration activites. As at the date of this report, the Company's liquidity did not include any holding of asset-backed commercial paper.

OUTSTANDING SHARE CAPITAL

As at March 11, 2009, there were 212,587,041 common shares issued and outstanding, as well as the following options and warrants:

OPTIONS:

Number of options outstanding	**Exercise price range**
4,205,000	$0.00 – $0.99
720,000	$1.00 – $1.49
5,015,000	$1.50 – $1.99
400,000	$2.00 – $2.50
10,340,000	

WARRANTS:

Date issued	**Number of warrants**	**Exercise price**	**Expiry date**
December 17, 2007	2,000,000	$ 2.41	December 17, 2009
	2,000,000		

3,437,500 warrants issued on April 16, 2007, expired unexercised on October 16, 2008.

CONTRACTUAL OBLIGATIONS

In addition to commitments and contractual obligations related to the Casa Berardi property (refer to discussion under "Casa Berardi" in this MD&A), the Company is required to make cash payments of US$50,000 (advanced royalty payments) to maintain its 100% interest on the Vogel property, and yearly payments of $25,000 for 2009, 2010 and 2011 and $50,000 for each of the three years thereafter as required under the Schumacher agreement.

The Company has also office rent obligations, capital lease obligations and asset retirement obligations for the Bell Creek Mine and Mill and Timmins project advanced exploration as at December 31, 2008 as follows (in $'000s):

	2009	2010	2011	2012	2013 and thereafter	Total
Office rent	$ 462	$ 455	$ 431	$ 433	$ 607	**$ 2,386**
Asset retirement obligations	–	–	–	–	5,417	**5,417**
Capital leases and other	967	728	306	306	1,337	**3,644**
	$ 1,428	$ 1,183	$ 737	$ 739	$ 7,361	**$ 11,448**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's accounting policies are discussed in note 2 to the consolidated financial statements for the year ended December 31, 2008. Management considers the following policies to be most critical in understanding the judgments that are involved in producing the Company's consolidated financial statements and the estimates made that could impact results of operations:

Resource properties and deferred exploration

Acquisition costs of resource properties together with direct exploration and development expenditures are capitalized. When production is attained, these costs will be amortized. When capitalized expenditures on individual producing properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties that are abandoned are written off when the decision to abandon is made. The recoverability of the amounts shown for resource properties and deferred exploration is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements, and the success of future operations or dispositions.

Future taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Significant estimates include the timing of the reversal of the Company's book to tax differences.

Stock options and warrants

The Company uses a Black-Scholes model to determine the fair value of options and warrants. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Asset retirement obligations

Estimates of asset retirement obligations are the costs associated with the closure and site restoration costs for the Bell Creek Mine and Mill and Timmins project advanced exploration. These amounts are estimates of expenditures that are not due until future years. The discounted amount of changes in these estimates will be included in the respective asset with an offsetting amount accrued as asset retirement obligations.

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. 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 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

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 in the consolidated results.

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.

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 transactions.

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-haa-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 $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.

RISKS AND UNCERTAINTIES

The most significant risks and uncertainties faced by the Company are: the inherent risk associated with mineral exploration and development activities; the uncertainty of mineral resources and their development into mineable reserves; uncertainty as to potential project delays from circumstances beyond the Company's control and timing of production; as well as title risks, risks associated with joint venture agreements and the possible failure to obtain mining licenses.

For a detailed description of Risks and Uncertainties refer to the Company's Annual Information Form for the year ended December 31, 2008.

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

In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), have evaluated the operating effectiveness of the Company's internal control over financial reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO and effected by management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. Based on this assessment, management believes that, as of December 31, 2008, the Company's internal control over financial reporting is operating effectively. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2008.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding annual and interim financial statement disclosure. An evaluation of the effectiveness of the design and operation of disclosure controls and procedures was conducted as of December 31, 2008, by the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, are effective.

FORWARD-LOOKING STATEMENTS

Some of the statements in this MD&A constitute "forward-looking statements" within the meaning of securities legislation, including the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date of this MD&A or, in the case of documents incorporated by reference herein, as of the date of such documents and the Company does not intend, and does not assume any obligation, to update these forward-looking statements. These forward-looking statements represent management's best judgment based on facts and assumptions that management considers reasonable, including that operating and capital plans will not be disrupted by issues such as mechanical failure, unavailability of parts, labour disturbances, interruption in transportation or utilities, or adverse weather conditions, that there are no material unanticipated variations in budgeted costs, and that contractors will complete projects according to schedule. The Company makes no representation that reasonable business people in possession of the same information would reach the same conclusions.

Forward-looking statements include, but are not limited to, statements with respect to the future price of gold, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, timing of completion of pre-feasibility studies, success of exploration and development activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of exploration operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, completion of acquisitions and their potential impact on the Company and its operations, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to: the inherent uncertainties in mineral exploration and development activities; fluctuations in the price of gold or in currency markets; the uncertainty of mineral resource and reserve estimates; the uncertainty of financing being available when needed; the uncertainty of mining licences or governmental approvals being granted in a timely manner; changes in regulatory requirements; hiring and retaining personnel with the necessary expertise; the failure of plant, equipment or processes to operate as anticipated; material unanticipated variations in budgeted costs; contractors not completing projects according to schedule; actual mineralization on properties being less than identified mineral reserves; accidents, labour disputes and other risks of the mining industry; delays in the completion of development or construction activities; as well as other factors discussed in the section entitled "Risk Factors" in the Company's AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

QUALITY CONTROL

Lake Shore Gold has a quality control program to ensure best practices in the sampling and analysis of drill core. NQ (47.6 mm) size drill core is saw cut and half the drill core is sampled in standard intervals. The remaining half of the core is stored in a secure location. Drill core is transported in security-sealed bags to external laboratories for analysis. Standard reference materials, blank and field duplicate samples are inserted to the sample stream prior to shipment from site at the approximate rate of 1 per 20 samples in order to monitor the quality control of the assay data. Routine assaying at the laboratories are completed using a standard fire assay with a 30-gram aliquot. Assays showing visible gold or that return grams per tonne greater than predetermined thresholds are re-analyzed using the pulp metallic method. Batches of samples containing standards or blanks exceeding predetermined tolerance limits are also re-assayed.

QUALIFIED PERSON

The Company's Qualified Persons ("QPs") (as defined in National Instrument 43-101, "Standards of Disclosure for Mineral Projects") for the Timmins project and Thunder Creek properties; Bell Creek, Schumacher and Vogel properties; and Casa Berardi optioned property are Jacques Samson, P. Geo., Richard Labine, P. Geo. and Eric Kallio, P. Geo., respectively. As QPs, Messrs. Samson, Labine and Kallio have prepared or supervised the preparation of the scientific or technical information for their respective properties as reviewed in this press release.

ADDITIONAL INFORMATION

Additional information relating to the Company is provided in the Company's audited consolidated financial statements for the year ended December 31, 2008, its Annual Information Form for the year ended December 31, 2008 and its most recently filed Information Circular. These and other documents relating to the Company are available on SEDAR at www.sedar.com.