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Kirkland Lake Gold Finally Turns Profitable Enough To Attract Majors

By Our Canadian Correspondent.

Back in November with Canadian and AIM listed Kirkland Lake Gold still being plagued by operational losses at its Macassa mine, we wrote that the company could well be the turnaround story of the New Year. Well, it did not take long for board member Harry Dobson and Kirkland Lake Gold President, Brian Hinchcliffe, to prove us right.

At the time shares of Kirkland Lake Gold were hitting new 52-week lows of C$3.55 each and today those same shares are fetching C$7.10. Of course, the price of gold rising from US$475 to around US$600 per ounce has helped but the real story behind the share price appreciation is the long awaited profit picture emerging from the company's mine in Ontario's historic Kirkland Lake camp. For the three month period ended January 31, 2006, the company reported earnings of C$2.3 million, or C$0.05 per share. A marked improvement from the C$6.3 million, or C$0.14 cents per share loss tallied in the same period a year earlier. Even more importantly, operating income rang in at C$5.07 million compared to an operating loss of C$3.3 million in the previous year's quarter.

Driving the first ever quarterly profit for Kirkland Lake Gold was a focus on reducing operating costs, which hit C$150 per ton in the latest quarter down from C$174 per ton in the previous quarter and C$256 per ton a year ago. The output picture was also favourable with 40,252 tons of ore grading 0.42 ounces/tonne gold yielding 16,434 ounces, compared to the 37,936 tons grading 0.32 ounces/tonne for production of 11,922 ounces in the same period last year. Gold revenue came in at C$11.1 million with 18,624 ounces sold at an average price of C$597 per ounce, an improvement of 86 per cent from the previous quarter and 74 per cent from last year's quarter.

Sprott Asset Management must be happy with the results because late in 2005 the well known resource financiers took down 1 million Kirkland Lake Gold units at a price of C$4 each. Each unit holds one share and half a warrant with each whole warrant exercisable at a price of $4.60 per share.

Adding some spice to the operation picture is the success of the aggressive C$21 million exploration program first launched in 2002, to drill test the extension of the '04 Break, which was the main ore body horizon on the property. So far, this work has led to the extension of the '04 Break by over 600 feet to the 3200 foot elevation and also resulted in the discovery of the north-south trending Upper D Zone. According to Chief Production Geologist, Ken Rattee, with the number of new ore headings being developed in the new upper extension of the Mine - both on the D Zone and '04 Break – the production implications are considerable.

"Cost per ton and per ounce should decrease as the new production impacts the mine," states Rattee. "Specifically, the current development has the potential for expanded strike lengths of steep ore and will be the first significant ore development along the '04 Break since the mid 1990's."

Given that the average gold grade from chip sampling during this program on the '04 Break has returned 2.44 ounces /tonne over 5.5 feet over a strike length of 30 feet, it is little wonder that Ken is optimistic. Even more so once drill results are taken into account as the first hole from the new 3400 drill bay, intersected the '04 Break and assayed 2.33 ounces/tonne over 6.3 feet and a previous hole cut 6.50 ounces/tonne over 8.9 feet some 90 feet west of the current west development face.

South of the property’s main ore-bearing horizon, the exploration campaign has discovered 14 gold zones. The first of the new discoveries to be drilled to reserve and resource status below the 4700 level will be the Lower D Zone, which has now been defined over 1280 feet horizontally. Recent drill results include 2.4 ozs/tonne gold over 3 feet and more importantly the Lower D resources are open in all directions.

Clearly, a lot of water has flowed under the bridge since 2002 when Kirkland Lake Gold purchased the mine and its 1,500 ton per day mill along with four former producing gold properties - Kirkland Lake Gold, Teck-Hughes, Lake Shore and Wright Hargreaves – from Kinross. The expectations were high and while things got off to a good start with production at the Macassa mine coming in ahead of schedule and below budget, rising operational costs soon had shareholders turning sour on the stock. But today, it appears that the operational wrinkles have been ironed out and the exploration program is definitely bearing fruit. So much so, that another quarter or two of profitability would propel Kirkland Lake Gold onto the take- over list for resource hungry majors. I imagine that the likes of Goldcorp are watching this one closely……and so are we.

Companies featured in this Story
Kirkland Lake Gold Inc (TSX,AIM-KGI)
Goldcorp Inc (TSX-G; NYSE-GG)