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Kirkland Lake Gold Plans To Take Production At The South Mine Complex Up To 200,000 Ounces Per Year By 2013

By Rob Davies

Old mines, says Richard Morgan of Mirabaud, are always a problem. Kirkland Lake demonstrated that last year, when a paste fill hole collapsed and production in the company's high-grade South Mine Complex was severely curtailed. As a consequence the South Mine Complex only produced 48,447 ounces of gold for the year at a cash cost that Richard estimates at a US\$1,002 an ounce.

That might all sound pretty grim, and is why the shares trade 20 per cent below Richard's target price. There is, though, a huge asset in this mine that is not in the price, and his name is Mark Tessier.

Mark comes to Kirkland Lake with a formidable reputation built up after many years of success running operations at Goldcorp's Red Lake mine. It is because of this man that Richard thinks Kirkland Lake can meet the ambitious production and cost targets it has set itself.

On the phone from Canada, Lindsay Carpenter, who handles investor relations for Kirkland Lake, reels off data at such a rapid rate that Minews was left feeling a bit overwhelmed. But the key numbers relate to production growth. Remembering that Kirkland Lake has an April year-end she estimates that the mine will produce between 90,000 and 100,000 ounces this fiscal year, 140,000 ounces in 2012, and 200,000 ounces in year 2013.

What makes this projected production jump so impressive is that it is being achieved at a modest cost, in two phases, for about C\$100 million, and is essentially debottlenecking. The biggest obstacle to processing more tonnes is the shaft. At the moment, the two working compartments can currently only handle 1,000 tons a day.

But the shaft actually has three compartments, and Kirkland Lake plans to get the third back into operation soon. A planned reconfiguration of the third shaft will allow the mine to have the capacity to haul 3,600 tons per day of ore and waste. With the average grade of the deposit running at approximately 0.5 ounces per tonne, that suddenly becomes a lot of gold.

What makes the story even more attractive is that the increasing volumes will dramatically reduce operating costs to US\$250 dollars per ton, a cost that will fall even further, to a targeted US\$200 per ton when the run rate gets to 200,000 ounces a year.

Chewing up that many ounces every year is going to put a big strain on the resource base, but Lindsay points out that Kirkland Lake now has 3.7 million ounces in all categories to its name. What's more, Richard Morgan can't see why that shouldn't rise to five million ounces as the drilling and exploration tests more ground.

Based on these projections, Richard estimates earnings of over C\$30 million by 2013. For an unhedged miner, with C\$51 million in the treasury and a market capitalisation of only C\$575 million, that makes it cheap to Canadians. But that isn't the end of the story.

Lindsay says there is a Phase 3 expansion plan currently under consideration which could take ore production up to 1,800 to 2,200 tons a day. That would take it to a new level altogether. A decision regarding moving forward with a phase three of expansion will likely be made this fiscal year. There has been no costing of that yet, but if Mark Tessier is involved it will probably be pretty competitive.