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KL - Q3 2018 Kirkland Lake Gold Ltd Earnings Call

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PRESENTATION

Operator

Good morning. My name is Holly, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Kirkland Lake Gold Third Quarter 2018 Conference Call and Webcast. (Operator Instructions)

I would now like turn the call over to Mark Utting, Vice President of Investor Relations. Please go ahead.

Mark E. F. Utting - *Kirkland Lake Gold Ltd. - VP of IR*

Thanks very much, operator, and good morning, everyone. With me today are most of the members of the Kirkland Lake Gold senior management team led by Tony Makuch, our President and Chief Executive Officer. We also have our 2 country heads, Pierre Rocque and Ian Holland are with us. For exploration, Eric Kallio, our Senior Vice President of Exploration is with us. John Landmark, our Vice President of Exploration for Australia is also with us. With us today, too, is Lisa Ross, who is our Director of Finance, and she will be providing the financial review today.

Today, we'll be providing comments, as you've heard, on our third quarter and 9-month results for the year 2018. After the presentation, we will open the call to questions. The slide deck that we will be reviewing today is available on the website at www.klgold.com and also through the webcast.

I now like to draw your attention to Slide 2 in the slide deck. This is our forward-looking statements slide. During the course of this call, both through the presentation and question-and-answer, the things we say may contain forward-looking information about future events and future performance. Please refer to the detailed cautionary language on Slide 2 as well as -- that is provided in our Q3 2018 press release and MD&A.

Also during today's call, we will be making references to non-IFRS performance measures. Similarly, a reconciliation of the non-IFRS performance measures is provided in the Q3 press release and MD&A.

Finally, please note that all figures today are in US dollars unless specifically otherwise stated.

And with that, I'll now turn the call over to Tony Makuch.



Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Okay, thanks, Mark, and good morning, everyone. Thanks for taking the call with us this morning. It's a scary day in most places in the world, but it's a pretty exciting time in Kirkland Lake Gold.

As always, I will start by thanking the people at Kirkland Lake. We turned in a very strong -- strong numbers this quarter during -- after the very low gold price environment in terms of what's happened, and really the results we speak of today both in production cost and production results is a reflection of a lot of hard work and commitment by a lot of people doing a lot of good work. So thanks, everybody.

Looking down now at Slide 4, looking at the key numbers. We achieved strong earnings with adjusted net earnings of \$60 million or \$0.29 per share. Record cash flow from operating activities were \$128 million, 77% higher than in Q3 last year. We had record gold production of over 180,000 ounces and gold sales of 184,000 ounces. And our unit costs were very low, an industry-leading cash cost of USD 351 per ounce and all-in sustaining costs of \$645 per ounce.

Looking at Slide 5, looking at our production in more detail. Our 180,000 ounces of production in Q3 2018 increased 30% from Q3 2017 and was 9% higher than the previous quarter. Compared to the same period in 2017, we increased production at all 4 of our operating mines with Fosterville and our Holt mine both achieving record quarterly production.

Turning now to Slide 6. This slide focuses on our 2 largest and highest grade gold mines at Fosterville in Australia and Macassa in Kirkland Lake. Fosterville's record production of close to 91,000 ounces increased 47% from Q3 2017 and was 17% higher than the previous quarter.

We have continued to see strong grade improvement at Fosterville with an average grade of 25.6 grams per tonne in Q3 2018. In August, we commissioned a new gravity circuit and saw an immediate spike in grade and jump in gravity recovery. Ian Holland will discuss this more later in the call.

Macassa had production of 55,000 ounces in Q3, a 15% increase from Q3 2017, Q3 production compared to record production of 60,000 ounces last quarter. We continue to get a strong grade performance out of Macassa with Q3 grade just over 19 grams per tonne.

Turning now to unit costs, as shown on Slide 7. We had record low unit costs in Q3 2018. Operating cash costs of \$351 per ounce were 25 -- 27% better than a year ago and a 13% improvement from last quarter.

Both Fosterville and Macassa have been better than budget on costs. Fosterville's cash costs for the quarter were very low at \$189 per ounce. Macassa's cash costs were \$439 per ounce, 16% better than Q3 last year. And I will actually point out that I think the \$189 per ounce at Fosterville without any byproduct credits. I don't know if there's any other mines in the world, there are very few mines in the world that are achieving those kind of cost metrics.

Looking at Slide 8, all-in sustaining costs in Q3 were very strong and ahead of plan, averaging \$645 per ounce. Again, Fosterville and Macassa were the drivers of our strong performance. Fosterville's all-in sustaining costs averaged \$416 per ounce. I can't help but think that that is a number that would put it in the lowest quartile of industry for cash costs -- or sorry, for all-in sustaining costs as well. And all-in sustaining costs actually improved at all 3 of our Canadian mines as well compared to last year's third quarter. And Macassa, all-in sustaining cost was \$722 per ounce, 14% better than a year ago. We also had improvements of 10% and 6%, respectively, at both Holt and Taylor year-over-year.

The next couple of slides highlight very important components of our Q3 results. This is now -- I'm now on Slide 9. The first relates to revenue and profitability. Lisa Ross will review earnings in more detail in a moment.

I'll focus on revenue. We achieved growth in revenue from both Q3 2017 and last quarter despite reductions of \$78 and \$97 per ounce in the average gold price. The lower gold -- these lower gold prices reduced revenue by \$14 million and \$18 million, respectively, in each of the corporate quarters. Despite the lower gold price, revenue in Q3 2018 increased 26% from Q3 last year and 4% from last quarter. We achieved revenue growth from both prior periods by having a very strong quarter in terms of business volumes. Basically, we had an excellent quarter of operating performance, which drove record production and sales.

Slide 10 looks at cash flow in more detail. I've already mentioned that we had record cash from operating activities in Q3 of \$128 million. I want to focus on free cash. We have long said that KL gold would be able to internally fund our growth projects. The project needed to reach 1 million ounces per year, while still maintaining a very strong financial position.

Q3 2018 provides a very clear demonstration of this capability. We ramped up our CapEx in Q3, particularly at our #4 shaft project at Macassa and still generated over \$50 million of free cash flow in the company. I can't say we will do that every quarter as we work through our major projects, but the trend will remain to fund our growth while also building our financial strength.

Turning to our 2018 guidance on Slide 11, we are in good shape relative to most of our key targets with 1 quarter of 2018 remaining. Year-to-date production of 492,000 ounces is ahead of plan and positions us very well relative to the August 1 guidance of over 635,000 ounces. Similarly, year-to-date operating cash costs of \$397 and all-in sustaining costs of \$738 are both better than the existing targets for the year.

Turning to Slide 12, we review our guidance once a quarter, and that is when we are preparing and improving our quarterly financial results. Based on yesterday's review, based on where we are now even at the end of October, we have announced revision to guidance in a number of areas. Consolidated production, cash costs and all-in sustaining costs guidance have all been improved. We are now targeting 2018 production of 655,000 to 670,000 ounces with cash costs of \$385 to \$410 and all-in sustaining costs of \$735 to \$760.

We also announced a number of other changes to guidance as well. Fosterville now expects to produce at least 300,000 ounces at cash costs between \$230 and \$250 an ounce. We also have improved Macassa's cash cost guidance of \$450 to \$470.

We have also raised our growth capital guidance for year, the higher CapEx is really focused on Macassa and relates to good progress being made with the #4 shaft and some new projects we are undertaking at the mine. The #4 shaft project, by the way, is going very well and remains on schedule and on budget.

With that, I will call on Lisa Ross, our Director of Finance, to provide more detailed financial review.

Lisa Ross

Thank you, Tony, and good morning, everyone. Starting on Slide 8 -- on Slide 14. Tony has already mentioned our strong earnings growth in Q3 2018 and our record operating cash flow.

I'll begin with earnings. Net earnings in Q3 2018 totaled \$55.9 million or \$0.27 per share, a 28% increase from Q3 2017. Q3 2018 net earnings compared to net earnings of \$61.5 million in the previous quarter. Higher revenue and improved unit costs were offset by the impact of other income in Q2 versus another loss this quarter. We also had higher exploration spending in Q3 versus Q2.

Adjusted net earnings in Q3 2018 totaled \$60.6 million or \$0.29 per share. The difference between adjusted net earnings and net earnings for the quarter is the exclusion of the \$6.4 million mark-to-market pretax loss on fair valuing warrants in our portfolio for strategic investments, mainly our \$14 million warrants in noble resources. The fair valuing of warrants is what accounted for the other loss on the income statement in Q3.

Turning to Slide 15, we reported record earnings from mine operations in Q3 2018, totaling \$115.3 million, an increase of 57% from Q3 last year and 5% from the previous record in Q2 2018. The increase from both prior periods largely reflected revenue growth. As Tony mentioned, revenue growth was driven by record sales, which more than offset the impact of the lower gold price compared to both prior periods. Also contributing the increase from last quarter were lower production costs. Macassa largely accounted for the reduction, reflecting reduced maintenance costs and the increased use of long haul mining method in Q3 versus Q2. Partially offsetting these factors were higher depletion and depreciation costs and royalty expense compared to both prior periods. The increases reflected higher levels of production and sales volumes.

Turning to Slide 16, EBITDA in Q3 2018 totaled \$119.6 million, a 20% increase from the same period in 2017. Q3 EBITDA was similar to record EBITDA of \$123.7 million in the previous quarter. One item on Slide 16 I want to highlight involves current income taxes. As you can see, despite significantly higher pretax income compared to Q3 2017, our current income tax expense was lower in this year's third quarter than a year ago. The reduction

reflects the utilization of \$24.6 million of deferred tax assets to reduce current income tax expense in Q3 2018, which was partially offset by a \$4.5 million tax recovery.

Finally, Slide 17 looks at our cash position, which continues to be very strong. Cash at September 30, 2018, totaled \$257.2 million, which compared to cash of \$298.5 million at June 30, 2018. I will point out that we restated our June 30 cash to reflect the recording of approximately \$20 million of cash as restricted cash. As Tony mentioned, we had record cash from operating activities in Q3 of \$128.4 million. We also continued to generate strong free cash flow of \$52 million.

CapEx for the quarter ramped up significantly to \$80 million as we made progress with our key growth projects, particularly the Macassa #4 shaft. We also had a number of other uses of cash, which led to the change from June 30. We invested \$48 million to acquire close to 33 million shares of Osisko, a new strategic investment for our company. We also invested \$30 million to repurchase close to 1.6 million of our own shares to our NCIB.

To sum up, Q3 2018 was a quarter where we continued to generate significant amounts of operating and free cash flow. We also put our cash to use to a number of growth projects and to take advantage of opportunities in the market for future value creation.

I'll now turn the call back over to Tony.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Okay, thanks, Lisa. Maybe in the next few slides, we'll provide an operational review of the third quarter and year-to-date and then have our Heads of Exploration update you on recent results.

So with that, I'll turn the call over to Ian Holland, our Vice President of Operations Australia.

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Thanks, Tony. Looking at the headline numbers, it was an exceptional quarter for Fosterville with record production of close to 91,000 ounces, and this result was really based on strong grade performance and starting development on a number of levels within Lower Phoenix. The long section and cross section to the right on the slide illustrate these high-grade areas with material above 30 grams per tonne, comprising 27% of tonnes, but 70% of ounces mined for the quarter.

Particularly noteworthy was our first stope on the Swan ore body on the 4140 level, which Canada has designed and in line with expectations at close to 40 grams per tonne.

Also important to note was the commissioning of a second gravity circuit in August, as Tony mentioned previously. Its upgrade was on the primary grinding circuit and led to a spike in grade as gold was recovered from the recirculating load. Important to note that the component of this gold was coarse in nature and would have entered the circuit relatively recently. The increase in production has driven unit costs even lower with operating cash costs of \$189 for the quarter and all-in sustaining costs of \$416 for the quarter.

The strong performance year-to-date and the outlook for Q4 has led to improvement in guidance for both production to 300,000 to 310,000 ounces for the year and operating cash costs to \$230 to \$250 an ounce for the full year. The final point to make is that a number of key projects continue to ramp up over the quarter.

The ventilation upgrade, paste fill project and water treatment plant are all on track to be completed during 2019, and are important platforms for Fosterville to reach production levels in excess of 400,000 ounces per year by 2020 as we've previously stated.

With that, I'll pass over to Pierre Rocque.

Pierre Rocque - *Kirkland Lake Gold Ltd. - VP of Canadian Operations*

Thanks, Ian. Macassa had a solid quarter processing 3% more tonnes than during the second quarter. 88% of the tonnage came from the SMC zone, which equates to roughly 83,000 tonnes from 22 stopes located between 53 and 57 level. You can refer to the isometric drawing in the top-right corner of the slide.

The solid performance translated into unit cash costs of \$439 per ounce and helped keep our year-to-date unit cash costs below \$450 per ounce sold. With regards to sustaining capital, most of the year-to-date amount was spent on development and equipment. Projects to continue into the fourth quarter include the #4 shaft installation of the liner in the north tailing storage facility and building the foundations and pump house for the thick and tail's plant.

I will now turn the call over to Eric Kallio for a review of Canadian exploration.

Unidentified Company Representative

Okay. Thanks, Pierre, and good morning, everyone. I'll be addressing Slide 21. Exploration in Canada was focused on the Macassa and Taylor mine properties and include 37,000 meters of drilling in Q3, bringing the year-to-date meters to about 100,000, on track for about 135,000 by year-end.

Drilling at Taylor was nailing on earlier-stage targets geared mostly for the long-term efforts. Macassa continued to target the South Mine Complex below the 5300 level. Highlighting some of the new work in Macassa is imaged on the screen, which is a plan of 5300, so -- and slices through the mineralization and some of the recent drill locations. The projected location of the #4 shaft is also highlighted in the top right.

As indicated, drilling was for 3 drills in total with 2 working to confirm and extend each part of the SMC complex where we announced several wide high-grade intercepts near the end of the second quarter. The third drill is just to the west of these 2. And on the 5700 level, working to extend the SMC and lower diesel to the east and to depth.

We did not have any press releases during the quarter as the results are still being compiled. But I can say that we continue to be happy with what we see and not seeing any obvious limits to the mineralization being drilled at this time.

Aside from the bar, I'd also like to point out that we also completed 3 new job platforms, with 2 being on the east and west extremities of 5300 and one on 5700, just east of where we are now. All of these will provide excellent new opportunities for testing and expansion of current zones and looking forward to getting drilled in and starting with this drilling very shortly.

And with that, I'm going to pass over the call to John Landmark.

John Landmark - *Kirkland Lake Gold Ltd. - VP of Exploration for Australia*

Thanks, Eric. Good day, all. It's a pleasure to give you an update on our Australian exploration activities. I think what I'll do is I'll go straight to Fosterville and talk about the Swan as an infill drilling. And after that, I'll move on to tell you about exploration activities elsewhere at Fosterville. And finally, I'll close off by touching on our NT exploration program.

So if you look at Slide 22, this is a long section view looking to the west, and it shows the Swan mineral resources and reserve blocks. We published this image in the September news release when we provided the market with a progress update on the infill drilling program in the resources block. So the bulk of the pink blind area is targeted for conversion from inferred to indicated mineral resources, which we're going to achieve by closing the drill spacing down to about 25 meters by 25 meter centers.

So if you have a look at the diagram, the breakup labels give a summary of each whole number and assay grade and grams per tonne gold and an estimated true width in meters, and these are the new holes that haven't previously been reported.

I'll draw your attention to the 5 yellow boxes, which pick out holes with mineralized intersections of greater than 1,000 gram meters. These are really spectacular results. For example, 423 grams over 3.2 meters and 353 grams over 3.4 meters are quite exceptional. And hole 2551, which is some 80 meters down plunge of the current resource reserve boundary, returned 289 grams over 6 meters. These are all holes that will support our resource upgrade from inferred to indicated, and seeing results like this gives us confidence in stating that we'll convert a significant proportion of 2017 mineral resources through reserves once we've closed down the drill spacing. And of course, we'll release those results at the end of the year.

Turning to Slide 23, you get a sense of the high density of infill drilling we're currently engaged in at Fosterville on this Swan mineral resource area. Each dot representing a pierce point of a drill hole through the Swan Zone. This is a long section view looking to the west. And to give you a sense of scale, it's 50 meters between each of the gray grid lines. The yellow colored shape with the orange horizontal development is the Swan mineral reserve, currently reported as 1.16 million ounces at a grade of 61 grams per tonne gold. And to the left of this in the lilac color and plunging to the south is a Swan mineral resource. The black dots are holes that we used for the 2017 resource estimate. Red dots are holes we drilled in Q1 this year. Purple dots were up to the end of Q3. And then finally, the blue dots are what we've done this quarter before the end of 2018. So that will obviously all be included in the estimate.

The area contained within the dotted red line is anticipated to upgrade from inferred to indicated mineral resources. And with mining engineering design, we'll convert to mineral reserves in our end of year MRMR statement. I want to stress that this is just a subset of our overall exploration activity. And moving on to Slide 24, I can expand further.

We now zoom up to a 4-kilometer long section view of the Harrier and Phoenix systems at Fosterville. This slide also shows you the traces of drill holes highlighted in red, which will complete at Fosterville by the end of the year with 6 rigs underground. Drilling is commenced this month at the south of Harrier. And by December, we'll have 4 rigs drilling from the exploration drive that is being mined as a priority hitting over the last 3 months. So this is a drive we've been pushing to the south, and it's on the left-hand side of the drawing.

It's important to note that at Harrier, we've seen high-grade visible gold and quartz-carbonate vein material, as we mine deeper parts of the system. This is similar to what we encountered at Phoenix as we progressed deeper there over the last 2 years.

Similarly, at Robbin's Hill, some 9 kilometers to the north of Harrier and just off this particular drawing, we reported higher-grade visible gold intercepts of depth in May. We now have another 2 surface drill rigs drilling there.

In addition, we have 3 surface rigs working hard to test Fosterville-lookalike targets elsewhere on our exploration leases.

Now turning our attention away from Victoria and Fosterville, I'd like to briefly mention our activities in the Northern Territory. At the Cosmo Mine site, we've continued with underground development and exploration drilling and have stepped up to have -- having 3 rigs there, where we're drilling both the Cosmo ore system and the Lantern system. And then 65 kilometers to the southeast where we have the processing plant at Union Reefs, we've got 2 surface rigs testing the prospect and Lady Alice lode systems at depth and along strike. We plan on shortly putting out a news release updating the market on our drilling results from the program there.

In summary, we have 15 drill rigs drilling exploration targets in Australia. We are on track to complete almost 300 kilometers of drilling this year, an 80% increase from what we did last year. And we anticipate a very significant mineral resource to reserve conversion at Fosterville at the end of the year.

Thank you, and I'll now hand back to Tony.

Anthony Paul Makuch - Kirkland Lake Gold Ltd. - President, CEO & Director

Okay. Thanks, John, and also Lisa, Ian, Pierre, Eric and Mark for supporting this conference call and the presentation. I know that it's been somewhat of a trying quarter, but -- we don't have a CFO for the quarter, but Lisa and the finance team did a great job of getting the results out and really a



reflection of the depth of people we have in the company. We are going to be announcing a new CFO, but it will be probably towards the middle or end of November as we progress.

We also had Eric Kallio present -- we haven't officially announced Eric, and I'll externally announce Eric to shareholders, but Eric is our Senior VP of Exploration working at Canadian operations. Welcome Eric on board.

Anyway, I'll just sum up now on Slide 25, and it's going to -- we had a very successful first 9 months of 2018 and are positioned for a strong finish to the year. We've reported strong earnings growth, record operating cash flow and significant free cash flow. Our projects are advancing, and we are poised for significant organic growth over the next few years. We have strong cash position and are using our cash to fund our growth and seek new opportunities. And we are rewarding shareholders through share buybacks and dividends and remain committed to growing shareholder value.

With that, I'll say thank you. Happy Halloween, everybody be safe today. Watch out for the trick or treaters, and we'll be happy to take any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Cosmos Chiu from CIBC.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Maybe my first question is on the guidance. Certainly, it's good to see that you've increased guidance once again, and then that's positive within, I would say a very challenging gold tape. But Tony, if you were to look back on January 1, 2018, or whenever you did the budget for 2018, what are some of the -- or 1 or 2 of the key positive surprises that you've seen year-to-date and that's resulted in your increasing guidance 2x now in 2018? Was it grade? Was it throughput? What was it?

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Well, I think, one, we've had -- definitely grade performance, and continued grade performance improvements at Fosterville has definitely had -- built up over the year. We've had strong performance at some of our other mines. We're really seeing a -- really a turnaround happening at the Holt Mine up in Canada. You know, it's a small producing mine, but they're having probably optimal results or some of the best results that mine's ever had since it was maybe originally run by Barrick. So heads up to the team with -- anyway, we definitely have some good things happening that -- we've had some positive results over the year, and that's a reflection of people being able to react, see these things are different and changing and being willing to do more than what was just in the budget.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Yes. And then maybe digging deeper into the Australian assets here, maybe some questions for Ian. Certainly, it was good to see the first stope coming out of Swan, 40 gram per tonne. I can't believe I'm saying this, it's so high-grade, but it's still lower than the reserve grade that you've stated. As you said, it's on budget. But my question is, when could we start seeing -- are we going to start -- continue to see an increase in the grade? And when could you see the head grade approach 61.2 gram per tonne that you've outlined for Swan? And I guess the other part of my question is, how many more stopes of Swan are you going to be mining in Q4 versus Q3?



Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Yes. Thanks, Cosmos. I guess just to start with that point, the Swan stope was very much in line with expectations, and in fact, it was a bit better than the model -- underlying model indicated. Important to note that it's -- that this is the start of it, and it was 6,000 tonnes at close to 40 grams, total reserve of more than 0.5 million tonnes at 61 grams. So it's not uniformly -- it doesn't have a uniform grade. There are stopes, which will be lower than that, and there are stopes, which will be significantly higher than that. So it really is just starting. What we'll expect to see is a handful of stopes over the course of Q4 and into early next year as we ramp up. And really, Swan doesn't reach sort of full production levels until 2020. In terms of a head grade, very important again for us to note that the Swan reserve grade is 61, but that's not the overall reserve grade because there's other material as well. So we will continue to see an increase in head grade, and that really drives the production level to -- in excess of 400,000 ounces per year by 2020. But it's not all Swan, a proportional increase, but it's not all Swan.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Are you able to tell us what percentage rate now is coming from Swan? Either on tonnage or ounces?

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

What -- so in terms of Q3, it wasn't a single stope and it was 6,000 tonnes out of a total of 120,000. So that's a small proportion, but that proportion will grow.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Of course. And then at the mill, at Fosterville, certainly good to see that with the gravity circuit, there was a spike in the recovery. I believe Q3 recovery was, what, 97.5%. Could we see -- you're putting in the second gravity circuit now. Can we potentially see a further increase in recovery? Or is that what you're happy with, 97.5% and you just want to maintain it at that sort of level?

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Well, I think there's some -- we reached a bit of a lower diminishing returns on recovery, Cosmos, because it is fair that we've -- or we can't go beyond 100%. The -- and I guess I will note that Fosterville has a gravity component, and it's obviously now a significant gravity recoverable component at plus 50%. But they remain sulfide ore, and that sulfide ore is double refractory in nature. So borax remains an important part of the picture, and there is a pre-rubbing component to some of the native carbon in the ore as well. So my view is that 97% plus is an exceptional result. We'll always continue to put pressure on the team for more, but there's not much more to give, I think.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

And maybe switching gears, although -- but going back to Tony here. Tony, in Q3, you made an investment -- strategic investment in Osisko Mining. Previously last year, you had made a strategic investment in Novo Resources. Could you remind us what strategic investments mean to you? And how you see these 2 investments sort of play out in the long term?

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Okay. So both situations, whether it's the -- with Osisko. I mean in Osisko, it sits with a lot with what we did with also Bonterra and Metanor. And really what we're looking at there is we think there's a potential, a large camp -- a new camp performing in the Abitibi in that region and the Urban Barry region in northwestern Québec, and we want to be a part of it. We think there's -- it potentially could be fairly large. Similarly, in Australia with Novo and the Pilbara, we see that as being again, a paradigm shift or a potentially very large gold deposits being discovered in that region in Australia. Both of them, you got to recognize our greenfield exploration project, still fairly early stage, but lots of potential. And our goal, and we're

a mining company, we're not into these for investment. We're into these to be able to participate, to provide some oversight if we can, but to keep us of -- getting insights and understanding what's happening with these projects as they progress. So our goal here is we have a very strong growth trajectory that we see, 2023, 2024, and we're looking at how do we -- where are the next phase of these things we're going to be building in Kirkland Lake Gold for the shareholders beyond that period of time.

Cosmos Chiu - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Equity Research Analyst*

Okay. Maybe one last question, if I may, on capital allocation. In Q3, you spent quite a bit of money on share buybacks on the NCIB. Tony, as you talked about CapEx ramping up with shaft 4, you also pay a dividend as well. So in the end, despite the positive free cash flow in Q3, your cash actually came down after CapEx, after dividends, after the share buyback. How do you allocate capital? And do you see yourself being as aggressive in the share buyback in the coming quarters?

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Well, first off, I mean the cash is in the bank not to protect management, but we use that cash to provide value for our shareholders the best we can. It's not our money, it belongs to the company and the corporation and we will want to use that to create value for us and where we see the best way to create value. And in terms of our share buyback, we feel that our shares are -- even as -- is going to continue to be undervalued, and we see that as a very important value creator for our shareholders by -- when we get the opportunity to buy back our share. We think everybody should be buying our shares, and we'll continue to share support our share price into the future. The company's very strong financially. We don't believe -- we're going to generate a lot of free cash flow over the next few years and we don't believe that we should just keep money sitting in the bank getting 1% interest. So we see there's a lot of better things we can do with this cash, again, to create value. So that's a big part of it. But -- and the other part in terms of capital allocation, I mean our main priority, we talk about achieving 1 million ounces a year of production by -- as we complete the shaft at Macassa. I mean, our goal is to really try to get there a little bit sooner than that, and we think we're going to be able to give more guidance over the next few months or next year in terms of -- and see progress to that as we go, and we're making sure that we allocate our capital as much as possible towards ensuring that we achieve that.

Operator

Your next question comes from the line of Michael Siperco from Macquarie.

Michael Siperco - *Macquarie Research - Gold Analyst*

Just back to the guidance for Fosterville. If my math is right, it implies a 4Q production of 60,000 to 70,000 ounces versus the 91,000 in Q3. Is that just conservatism given the great variability? Or is there a particular reason that you're expecting a lower number?

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Yes, thanks. I'll take that question. I mean, in reality, the year-to-date -- the quarterly average production is 77,000 ounces. So it is -- we are projecting something similar in terms of production output. We do see the potential for a higher result, given grade outperformance, but that's a variable, that's difficult to control. So inherently, we've essentially kept a fairly steady keel on that.

Michael Siperco - *Macquarie Research - Gold Analyst*

Is it fair to expect more production from the Swan Zone in Q4 versus Q3? Or is that not where we are yet?



Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

I mean, a very small amount more. So it is really only just starting.

Michael Siperco - *Macquarie Research - Gold Analyst*

Okay, got it. So there's nothing specific in the quarter, no shutdowns, nothing else that would necessarily lead you to believe there's lower production, you just don't want to count on the same kind of grade. Is that fair to say?

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

That's fair to say. Great.

Michael Siperco - *Macquarie Research - Gold Analyst*

Okay. A couple more if you don't mind, quick ones. Just to clarify on the resource and the reserve updates at Fosterville. Is it your intention not to upgrade to reserves by the end of the year? I guess basically can you just clarify what the process is for getting that inferred resource to indicated and then finally into reserves? When should we expect that update to reserves?

John Landmark - *Kirkland Lake Gold Ltd. - VP of Exploration for Australia*

Thanks, Michael. John here. Look, obviously, we're doing the drilling at the moment. We'll probably close off the drilling towards the end of November, early December. We've got to let assays come through and effectively, we calculate our resources initially towards the end of the year. But we then have to deplete those, give them to the engineers, and they go through a process obviously of doing the designs and converting into reserves. And then what's left over is then looked at again, and we come up with the residual resource. Basically, that process in itself that I've just described will take about 6 weeks. And of course then, with confirmation of numbers, we'd expect to have something to the market in, I would say, in February next year. But it actually reflects an end-of-year status.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

John showed you in the slide he had, you can see there was a lot of infill drilling within the inferred resource, so that was infill drilling to increase the drill hole spacing, increase the confidence in the resource. And then once it moved to measured indicated, then it's, as John mentioned, it's an engineering exercise, an economic exercise to determine its ore. Yes, and so we do it -- we will be converting or upgrading inferred resources to indicated and measured resources, and then we will then work -- do the work to comp at a reserve. So we do expect to announce new reserves, and it will come out the end of February, but effective for December 31.

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Yes. It's worth explaining, Michael. The area that we're focused on, it wasn't -- we weren't able to qualify that as a reserve last year. The drilling was too broadly spaced, and there were about 800,000 ounces that were in a resource last year. And that's what we're focused on now, is upgrading that to a reserve.

Michael Siperco - *Macquarie Research - Gold Analyst*

So sorry, is that the resource by February? Or is that the reserve that we should be expecting by February?



John Landmark - *Kirkland Lake Gold Ltd. - VP of Exploration for Australia*

So there is a -- it'll be both. It's all part of the same process.

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Yes, we come out with this -- we come out with a statement of both, but obviously, the focus is on what is being converted to is a reserve.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

And just to make sure you know that we report our reserve -- resources exclusive of reserves. That's why it have to become a resource first, then we figure out what to reserve and then we report the remainder of the subset of the resource as reserves and the remaining subset of resource as resources exclusive of reserves.

Michael Siperco - *Macquarie Research - Gold Analyst*

Okay, okay. I think that's clear. Could you also talk -- just going back to Osisko and the Abitibi and your investment in Bonterra. I mean, you talked about it a little bit. Could you talk a little bit more maybe about what in particular you see in that camp and maybe what you'd need to see in the future to make a decision about further investments or any other involvement you'd want to have in the camp?

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Well, again, it's a large system that appears to be there. And I mean, again, it's greenfield exploration, but we see some -- there's a lot of gold showings or gold being identified in various locations. We need to see resources. We need to do -- be able to get a sense on how the resource is growing and/or the confidence in the resource. We think there's still a lot of work to do on that -- on those areas. And our goal, I mean we've been -- in terms of objective of what is a Kirkland Lake asset, first off, it has to be a mine that has significant production. And we think it's -- from account scale perspective, it definitely -- it needs to be a large production similar to what we may be getting annually currently at Macassa and/or Fosterville. And you have to see cash costs below \$650 an ounce and all-in sustaining costs below \$950 an ounce over the life of mine, so -- as a minimum.

Michael Siperco - *Macquarie Research - Gold Analyst*

And how does grade figure into that? Are you looking specifically for something high grade? Or are you more agnostic on that point?

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Well, again, if we're looking, we're looking more for margin, we definitely -- grade is king, and we definitely would look for grade. But sometimes it's how you look at the orebody, determine where the grade is. Part of it though, it could be -- I mean a high-grade open pit could be -- it might be different than a high-grade underground, and some higher grade or high-margin mines could -- it depends on the mining method and the geometry of the orebody. So it's -- there's a lot of differences, so, maybe in a nutshell, I'd probably say -- if I say \$650 an ounce cash cost at \$950 all-in sustaining, it gives you a sense at a minimum of what we want to look for. Grade definitely helps that. And if we can get it to the Fosterville levels or the Macassa levels, and that's really driven by margin as well, right? So it's operating costs, capital costs to develop it. It's all -- the whole thing about building an economic mine there.

Michael Siperco - *Macquarie Research - Gold Analyst*

Okay, great. That's very helpful.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Yes. Sorry, I hope that answered it. We don't just look at -- you notice if it's 20 or 50 grams per tonne. But sometimes if it's 8 grams per tonne, but you can mine it at a very cheap cost and get pretty good margin. We're happy to have that.

Michael Siperco - *Macquarie Research - Gold Analyst*

Makes sense. You don't want to dilute yourself too much for gram per tonne material, but I get it.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

Yes. But if you can mine gram material for \$189 an ounce, we'll take it.

Operator

Your next question comes from the line of Mike Parkin from National Bank.

Michael Parkin - *National Bank Financial, Inc., Research Division - Mining Analyst*

Kind of a follow-up to that question. What's your thoughts of the potential of Nunavut. You've seen, I think, Eagle do extremely well up there. Is that an area that you consider favorable from kind of a developing camp standpoint?

Ian Holland - *Kirkland Lake Gold Ltd. - VP of Australian Operations*

Sure. I mean, we wouldn't be against something up in Nunavut. Again, you have to weigh size of deposit, economics around what you do there. But yes, we see potential opportunities there and definitely, we recognize the success that Agnico is having up there. A lot of that is attributed to their management systems and the processes and the people that they have and recognizing what could be done up in that area. We don't -- it's in the right jurisdiction. It's in Canada. Yes, it's cold, it's wintertime but this is a winter country.

Operator

Your next question comes from the line of John Tumazos from John Tumazos Very Independent Research.

Anthony Paul Makuch - *Kirkland Lake Gold Ltd. - President, CEO & Director*

We lost him.

Operator

(Operator Instructions) And there are no further questions at this time. I will now turn the call over to Mark Utting for closing comments.

Mark E. F. Utting - *Kirkland Lake Gold Ltd. - VP of IR*

We'll catch up with John after the call, I think. Thanks, everyone for joining us again today. As you've heard, we're a company that's performing very well. You've also heard that we have a lot going on. We're very busy, and we've got a lot of, we think, good things ahead of us. Just in terms of near-term catalyst, we -- you've heard that we have -- we're doing a lot of exploration work and we look forward to having some additional news flow for you in the next little while by the -- we then get to the end of the year, and you'll see our financial results. And again, we expect to have a good fourth quarter and so we can finish the year strong. We'll have our 2019 guidance out, and we're looking forward to being able to issue that. We think we're setting up for a very good year next year as we move down the road towards that 1 million ounce a year level. And then we had some good dialogue today on the reserve-resource update and it was a good announcement for us last year, and we expect it to be a good announcement for us when we get to February 2019. Finally, we're making very good progress with our growth projects both at Fosterville and Macassa. In fact, we -- at Macassa, we had a very good quarter with the #4 shaft and we expect to do a lot of work there on -- in Q4, as you've heard. I'd invite you, we will be posting photos of the progress we're making. We've now got the concrete for our headframe completed, and you can see that that project is coming along extremely well. So again, our website is www.klgold.com.

With that, I thank you again for joining us and have a good Halloween.

Operator

This concludes today's conference call. You may now disconnect.

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