

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

KL - Detour Gold Corporation, Kirkland Lake Gold Ltd. - M&A Call

EVENT DATE/TIME: NOVEMBER 25, 2019 / 1:30PM GMT



## CORPORATE PARTICIPANTS

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

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

**Michael James W. McMullen** *Detour Gold Corporation - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

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

**Fahad Tariq** *Crédit Suisse AG, Research Division - Research Analyst*

**John Charles Tumazos** *John Tumazos Very Independent Research, LLC - President and CEO*

**Kerry Smith** *Haywood Securities Inc., Research Division - VP & Senior Mining Analyst*

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

**Ovais Habib** *Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining*

## PRESENTATION

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

Thanks, very much, operator. And good morning, everyone. Today's call is being held to discuss the agreement through which Kirkland Gold will acquire all the issued and outstanding securities of Detour Gold. We issued a press release earlier this morning that provides all the details. Presenting today will be Tony Makuch, President and Chief Executive Officer of Kirkland Lake Gold; and Mick McMullen, President and Chief Executive Officer of Detour Gold. Following their remarks, we will open the call to questions. The slide deck that we will be referring to turn the call, is available on both websites at [www.klgold.com](http://www.klgold.com) and [www.detourgold.com](http://www.detourgold.com). Before we get started, I'd like to direct everyone to the forward-looking statements, like it's available on Slide 3.

During the remarks and answers to questions today, we will be making forward-looking statements about future events on the company's future performance. Please refer to the detailed cautionary note in the presentation as well as on both companies' websites. Also during today's call, we will be making reference to non-IFRS performance measures. A reconciliation of these measures is in -- is available within the latest financial results for the third quarter of 2019 for both companies.

Finally, please note that all figures today will be discussed in US dollars, unless otherwise stated. With that, I'd like to introduce Tony Makuch, President and CEO of Kirkland Lake Gold.

---

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

Good morning, everyone. Good Monday morning, yes, thanks for joining us. We feel [CD] is a very exciting time for the people of both Kirkland Lake and Detour Gold. The shareholders, local communities that support us. Myself -- as Mark mentioned, I'm Tony Makuch, President and CEO of Kirkland Lake Gold, and also joining me is Mick McMullen, President and CEO of Detour Gold. Earlier this morning, we announced the definitive agreement through which Kirkland Lake Gold will acquire all the issued and outstanding securities of Detour Gold. We believe this is a very compelling deal, which creates value for the shareholders of both companies.

For Kirkland Lake Gold, it has a world-class cornerstone asset in our backyard in northern Ontario. Most of us are from northern Ontario and have spent much of our careers working at the mines in the Abitibi Greenstone Belt. We're very excited to be adding another asset to complement our Macassa Mine in Kirkland Lake as well as our whole complex. Detour Lake mine is an asset that has been building momentum due to the progress being achieved by past -- achieved by Mick and his team over a fairly short period of time. The mine has been built well and -- by past operators and we believe that there was much more that can be achieved. Maybe I'll just ask Mick to come provide some initial thoughts.



**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

Thanks, Tony, thanks, everyone for dialing in at relatively short notice. Look, we're pretty excited about this transaction. I think this combination creates a really class-leading business in the gold space. And as Tony said, this is really in their own backyard. So we think this combination makes a lot of sense for everybody, from our shareholders, our First Nations stakeholders, our -- contractual counterparts and our employees as well. So we think this is a right thing for us as a company, as a whole.

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

Thanks, Mick. And this -- Mark made reference to the cautionary language in our Slide 3, and I'll let you read that on your own accord. I'll now turn to Slide 4, which provides the key transaction highlights. What we do here -- what the transaction does, it creates a growing low-cost value creating gold producer. By now -- now we combined 3 cornerstone assets in 2 core jurisdictions in Canada and Australia. It combines the large scale long-life Detour Lake mine with our high-grade Macassa and Fosterville mines.

The pro forma production will be over 1.6 million ounces of gold. It enhances Kirkland Lake Gold as an industry leader in financial strength and performance. We already demonstrated we have the industry-leading unit costs, margins, earnings and cash flow. Pro forma to net cash will be over \$600 million, no debt. And it based on average analyst estimates for 2019, the pro forma free cash flow will be over -- post to -- \$700 million, and you know, we expect this will be growing in future years. It also substantially grows mineral reserves and mineral resources, and we see a lot of opportunity for further growth and very important to the deals is the potential to continue the process of optimizing Detour Lake and looking at the expansion opportunities, which we see leading to higher production and better unit cost here.

The transaction also combines 2 very compelling exploration stories. We talk about the combined company being a leading senior producer but also we see the old Detour belt as being a very highly prospective area for exploration within the Abitibi. And we think by bringing some effort into here and some financial strength, we see tremendous upside and it being a complement to the success of what you can do with the operations.

Slide 5 provides some key details to the transaction. I don't really need to read the slide and maybe I'll just give you a couple of highlights. It's really for KL shareholders to have a 73% interest in the new company where -- and Detour shareholders having a 27% interest. The transaction has been approved by both the Boards of -- by the Boards of both companies, sorry, and it requires approval from both KL and Detour Gold shareholders, with the vote expected to take place in the January. Materials for the shareholders meeting should be mailed in December.

Slide 6 provides a pro forma capital structure for Kirkland Lake Gold. We are listed on the Toronto, New York and Australian Stock Exchanges. We have strong liquidity, and even after this deal, a relatively small float. The key number on this slide is the net cash or cash and cash flow increases as a result of this deal. With pro forma net cash of \$630 million, we clearly have the strongest balance sheet amongst our peers. Slide 7 provides an overview of Detour Lake Mine. If you already don't know, it's located in northeastern Ontario. It's about 185 kilometers north of Kirkland in the Abitibi Greenstone Belt. It is one of the largest gold deposits in the world with over 15 million ounces in reserves and a large resource base. We believe there is much more to be achieved in terms of continuing the path of optimizing current operations that's been going on under Mick's leadership and much more to find with focused and committed exploration here.

And now on to Slide 8. And the key point I want to make is that Detour Lake provides (inaudible) Australia. Detour and Fosterville are basically tied in the #4 position with expected 2019 production of around 600,000 ounces. And Macassa Mine is really beginning to emerge as a large world-class gold producer as well. On the right, the chart shows that Detour Lake is the #1 in mine life as measured by the reserve life index. One point I will make is -- and I've said this before, we -- having over 20 years of mine life, it doesn't mean we'll sit around and do nothing. We actually are getting excited about the opportunity and looking for ways to mine the ounces faster. But having said that, with exploration potential that exists and its large resource base that exists here, there's a potential to grow production materially while still maintaining a very long mine life at Detour.

Turning to operations on Slide 9. It shows our business portfolio post deal. As mentioned, our assets are both in Canada and Australia, what we regard as 2 best jurisdictions in the world from our perspective. Post deals -- 2/3 of our of post deals-- sorry, 2/3 of our production will be based in Canada, 1/3 in Australia. 90% of our reserves will be in Canada and that really reflects a very large reserves --- reserve base at Detour. I'll point out



that Australia through Fosterville generates a majority of earnings and cash flow. We expect that to continue -- sorry, earnings and cash flow to continue to be strong, generated out of Fosterville and out of Australia, but we also expect to begin to -- as we move forward, that Macassa and Detour Lake will really significantly add to that.

Turning to Slide 10. The benefits to KL shareholders were largely covered in the transaction highlights but I'll summarize. For KL shareholders, they'll gain access to a third cornerstone asset, with -- 600,000 ounces of current production and potential for significant growth. It adds to our financial strength and increases our free cash flow. Our mineral reserve base grow significantly by 15.4 million ounces. We have already taken 2 mining operations, Macassa and Fosterville and transformed them from small producers and to a high-quality world-class assets are generating -- that generate industry-leading earnings and free cash flow. The addition of Detour Lake provides an opportunity to transform a high-quality asset leading to greater value creation as well. Our plan is to bring our balance sheet strength, and the momentum already established here under mixed leadership, and our technical -- and the technical expertise of the combined company make Detour Lake an even bigger and better operations. We also expect that learnings from how Detour is operated will help us to improve performance at our existing mines. Two other key points about the deal. First, we see the potential for up to \$100 million per year synergies and additional value creation opportunities; and second, based on our models and assuming the existing operations at Detour Lake, the deal is accretive to KL for both NAV and cash flow. And again we think there is a lot of upside to creating more value. I'll now ask Mick to go over the benefits of the deal for Detour shareholders.

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

Thank you, Tony. If we look at the slide here, obviously, the immediate premium 29% based on the 20-day volume is in line with sort of similar transactions. It's about 24% premium to our closing price last Friday. In my role as relatively new CEO here, I've been out and spoken to a lot of our shareholders and asked them what do they want out of the business because, ultimately, they own this business. And there's been almost universal view that this asset shouldn't be sitting in the single asset structure over the medium term.

So what this transaction does is it really eliminates that single asset risk that our shareholders have been quite vocal about. And it does that by wending itself into a very high-quality portfolio of very low-cost operations. I think Fosterville is probably the lowest cost gold mine in the world at the moment. And I think it shouldn't be underestimated the benefit of having all the assets in low-risk jurisdictions. So this offering for investors that we'll -- the emerge will have is a pretty unique asset, actually, in terms of the other gold companies that are out there in terms of the low cost to and cash flow generation, the balance sheet, the financial strength. Our trading liquidity is enhanced significantly, if you remember the slide that Tony talked about earlier. I think the daily turnover for Kirkland is about 5x what ours is.

So I think that really gives a lot of benefits for our shareholders. There are other synergies that Tony also talked about, which again, we wouldn't get the benefit of on our own. So as a result of this transaction for our shareholders who end up taking shares in the merged company, there are a lot of benefits that just aren't available to us on the stand-alone basis. The other thing that I've spoken to investors about a lot is, on our own, we've been generating a reasonable amount of cash, but what do we do with that? And our shareholders will get to participate in Kirkland's capital return program, which has got a -- an attractive quarterly dividend of USD 0.06 a share. And they do have an ongoing normal course issuer bid as well.

So we think on the whole, this is -- these benefits are significant for our shareholders. We go to Slide 12. This is really for those people on the call who aren't Detour shareholders now so that they understand what we've been doing with the asset. So if you look at the graph on the left side there, this is basically showing 2 things: the squiggly line is our mill recovery, and the blue bar is our daily average throughput through the mill. And you can see, if you put a trend line through both of those, they're both improving quite a lot. The recovery line goes up and down a little bit, there is a seasonal variation. We typically see in the warmer months a lower recovery. But again, the trend is typically higher. So as it gets colder now, we will see that trend line turnaround, and we have seen that trend line turnaround.

The mill throughput is something that's been very important to us in terms of getting this operation running right. I'll talk about that in a little bit. And then if you look on the 2 graphs on the right side, again, when I spoke to shareholders, there was a concern that the company didn't deliver on what it said it was going to do in the past. We're very clear that if we say something, we will deliver, and we'll try to do better than that. So this is -- the top one shows our guidance range for gold production during the course of the year. And on our Q3 call, we brought the bottom end of



the range up. We're saying that we still expect to come in towards the top end of that range. And on an all-in sustaining cost, we brought that down by \$75 an ounce, and we also expect to come in towards the bottom end of that range as well.

So during the course of the year, as our teams have made improvements, we've been able to refine our guidance and actually made some improvements there.

Turning to Slide 13, we've outlined almost from day 1 series of 4 or 5 things that we're going to do for people. Make it very simple for people to track how we are actually doing. And these are the things that drive the improvement in the business. So we said we'd optimize the mine plan, this is ongoing work. But what we've been able to show and say to people now is that based on that work that we've got, based on the reserve reconciliation, which is the bottom graph I'll talk about shortly. We've been able to come up with a mine plan refinement which moves 100 million tonnes less waste over the next 3 years, and still produce the same ounces. And obviously, we've done enough work to know for the rest of the mine life that we can do this without getting ourselves waste bound and having to mine a huge amount of waste somewhere down the road.

So what does that mean, 100 million tonnes? Broadly, it costs us about CAD 3.20, CAD 3.30 a tonne. So for the same revenue line, we've actually managed to defer give or take CAD 300 million to CAD 330 million, which effectively is bringing cash flow forward. The graph on the bottom right over there shows the reserve reconciliation, which, again, is tracking, when we mine an area, how many ounces did we get out at what tonnes and grades, relative to what the reserve told us. And this has been a good new story as well because if you look at that graph from early 2018, late 2017, we've broadly been getting the same grade, plus or minus a few percent, which quite frankly is about as accurate as you can be. But we've been picking up a lot of extra tonnes -- extra ore tonnes.

So we are updating the new resource. I can't say today that, that trend will continue forever. We're pretty confident that we will get some extra tonnage. So obviously what that means is you can slow mining down in order to get the same ore tonnes out to fill the mill.

Just moving to the next slide. We've done a lot of work -- the team has done a lot of work trying to improve our fixed assets, getting more out of our fixed assets and immobile assets. And this a little [busy], this graph, but basically what this is showing you is, on a daily basis, how many tonnes we go through the mill. We have a daily permit limit of a 75,000 tonnes a day. That's average on a daily basis, and we cannot and we will not exceed that. You can see from that graph as you go during the course of this year, early in the year, never hit the 75,000 tonnes a day. As we get towards where we are now, we're hitting it on a regular basis and having to slow the mill down. So we are applying to increase that permit to 90,000 tonnes a day. Our mill will do, in the current form, 80,000 tonnes to 85,000 tonnes a day with 0 capital. So that process is underway. But again, obviously, if you can increase your throughput to that number with no capital, it improves your NAV. Similarly, we're renegotiating all of our major contracts. We've said on the Q3 call that we think will get about USD 35 million worth of savings through 2022. And no area of the business is being left unturned at the moment for us to drive change and make improvements in it. And going to the next slide, I'm going to hand back over to Tony, to talk about the potential on the reserve side.

---

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

Thanks, Mick. Looking at now on Slide #15, you get the sense, as Mick talked about, there's been a lot of improvements in turnaround at Detour Lake and a lot of work focusing on optimizing mine planning, improving productivity, managing costs or -- and improving the cost performance as well as the opportunity for expanding production. And this slide gives you basically the current M&A resource with the current mine plan -- or the current final pit shell shown on this plan.

If you go to the next slides, Slide 16, it gives you a view of the scale or size of the resource at Detour, and it's outside the current -- that's outside the current mine plan. And we expect that being able to not only to bring our strong balance sheet now forward continue to build on the success that's happened. You can see that there's a lot of opportunity to grow this operation, and we see that potential, the ability to realize the full potential of this deposit over time.

Slide 17 just gives us a sense on the exploration ground, and this is another key part of this and the value creator here is, it's basically a large land position in a Greenstone -- in this part of the Greenstone Belt in the northern part of the Abitibi. We're looking at putting -- increasing exploration

programs here, and there's been about \$40 million spent here over the last 5 years. We can see ourselves spending that much money per year in this area, and we think there's a lot of potential to find new deposits within this -- within the region and not far from the Detour mill.

Turning to Slide 18. It shows the ranking for market cap, free cash and reserve life. I think maybe the point to highlight here is KL's strong cash flow -- free cash flow generation. And you can see the significant improvement in our reserve life index as a result of this acquisition.

Slide 19 just shows the rankings for margins and free cash flow. And as shown in our peer group, our margin numbers rank #1. And while we don't give free cash flow guidance, looking at the street consensus number, you can see that pro forma, we are positioned to generate close to \$700 million of free cash flow in 2019. And the number is expected to grow at over \$800 million by 2021.

Turning now to Slide 20. Again, it provides a summary of the transaction. We're excited about what this does for Kirkland Lake Gold shareholders and Detour shareholders in terms of setting up for continued strong value creation. It provides Kirkland Gold with significant growth and free cash flow reserves in production. The combined company will be an industry leader in financial strength and performance. And the deal provides Kirkland Lake Gold with a third cornerstone asset in one of our core jurisdictions. And although Detour Lake is an open-pit mine while Macassa and Fosterville are underground mines, they all have a lot in common. Cash flow generating operations, so they're all good businesses that make money. There's significant in-line growth potential and considerable regional exploration upside. So this -- again, the way we've created the value for shareholders in the past for Kirkland Lake Gold through the drill bit, through investment in development and infrastructure at the operations to grow production and then to find new reserves and new resources and we see a lot of excitement here.

And in terms of Detour, with this alone, we see the potential that Detour can be probably the biggest and the main cornerstone asset within Kirkland Lake Gold in a short period of time as -- because we have the financial strength to really support building out the potential of the deposit. Anyway -- and may be before we get onto far in this and may be to talk about the moose on the table. People might ask about, we're a bunch of underground miners, what do we know about open-pit mining? Well, I'll say the same thing I said when we -- somebody said to us when we were doing the acquisition of Newmarket Gold, you bunch of Canadians, what do you know about underground mining in Australia? And I -- at the time I said if I close my eyes and open my -- sorry, close my ears and leave my eyes open, everybody's doing the same thing.

Similarly up here, we're not here to try to tell people what to do. There's a really strong workforce and a lot -- very good leadership in place at Detour Lake and a lot of momentum there. And really we're just going to be able to bring financial strength and add that there and help in terms of a lot of different areas that really have the people there to grow the potential of this asset even further.

And similarly, somebody but might ask the question, and maybe the kangaroo on the tables is, is there anything bad happening at Fosterville or in Australia? In fact, we'll be coming up with our guidance in a short period of time, and things are progressing extremely well in Australia. Fosterville is progressing well. We expect to see strong production this year, strong production next year and year-over-year. Exploration is progressing fairly well. And there's lots of value creation to come in these assets so -- with that, maybe I'll finish the presentation and we'll take time for questions. Thanks.

---

## QUESTIONS AND ANSWERS

### Operator

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

---

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

Tony kind of touched on it, in the past. You know your underground expertise. Detour is an open-pit. And you did touch on some of the leadership in place at Detour, strong workforce. But from that perspective, can you talk about who's going to stay on from Detour? How the new management team could look?



---

**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

It's Mick here. Actually I'll -- yes, look, it's all about people at the end of the day and the guys up inside -- well, guys and girls up inside have actually done a fantastic job getting these assets sorted out. And it's a pathway, right? We're somewhere along that pathway but we definitely haven't got all of the value out at this point. So we don't see this impacting people outside at all actually. In a way, Tony talked about the financial strength and there's stuff that we'd love to do like if he wants to spend \$40 million a year in exploration, that will be fantastic but we wouldn't do that on a stand-alone basis. And I think it enables our teams to take the blinkers off a bit, which we've been doing a little bit of as we been generating good free cash. So I think the plan would be that all of that team stays in place.

---

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

How about you, Mick, are you staying on?

---

**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

Well, not as CEO because you can't have 2 CEOs. But I'm available to help out as required on a go-forward basis.

---

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

Because I would imagine that's having the team in place might be important because you came on and you've been able to renegotiate some of those contracts. The contracts with the contractors are still -- and negotiations are still ongoing. So maybe back to Tony, how do you make sure some of these cost savings, some of the progress that's been made continues?

---

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

Well, I mean, fundamentally, a lot of these are part of disciplines you want to continue on in the operation. This should be part of our DNA in terms of how we work. And so we're not going to stop that from happening, and we're actually going to -- I think, you're going to see the momentum is there and we'll keep it going and really help to support the people in terms of what they see and what they need to do. Additionally, sometimes, you can -- a lot of cost savings come from reinvestment back into the business. And then again, whether that's from diamond drilling and from understanding resources and converting resources et cetera, but it's also from being able to invest a little bit of capital in certain parts of the plant and our equipment that helps it really drive costs down and turn the place around.

So I think there's a lot of opportunity here and as you mentioned, as Mick mentioned, really, the number one asset here, first and foremost, is the people. Then we have the resource in place, mineral resource in place. But it's -- as Paul Pen had once said when I was still going to university, I met him and he says mines aren't just made by the deposit, they're large -- mines aren't just found, they're actually made by people. And there is lot of really good people, and we're going to focus on that as a core part of how we work.

---

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

Yes. And then maybe go to the kangaroo question that you mentioned in terms of Fosterville. Previously, you had talked about we should expect Harrier deep exploration results before the end of 2019. Does this acquisition change anything? Should we still be expecting exploration results coming out of Harrier deeps and other parts of Fosterville before 2019?





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

This transaction takes nothing away from our current business, what we're doing in terms of the efforts in exploration at all of our assets and what we're doing in terms of moving forward. It has no impact whatsoever on our existing business.

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

And so we should still be expecting some exploration results to come out from Australia before the end of the 2019?

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

I would say you should. You still expect to see results, yes.

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

Okay. And then maybe taking a step back here. You talked about \$75 million to \$100 million in synergies for the combined company. Could you give us a bit more granularity in terms of where that's coming from? Is it head office? G&A, other parts, supplier chains and things like that. Where is that coming from?

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

Well, there's a lot of benefit on supply chain, and a lot of benefits are going to come in terms of focusing on people and productivity improvements. Some of it will come from increased production and the ability to grow production. So there's a number of areas that it will come from. Definitely at the corporate level, it's not going to be 2 public companies, it's going to be 1, so you're going to see savings in insurance and auditors and a lot of those things as well.

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

And how long would you expect before you can realize the full \$75 million to \$100 million? 1 year or 2 years? Are we expecting more like 5 years?

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

I would think that sometime between -- by no more than 24 months, we should see all that happening.

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

For sure. And maybe one last question, if I may. Again, I cover both Kirkland and Detour for a long time now. Kirkland trades at a premier multiple given that you have 2 of the highest grade deposits in the world, very high margin. I agree Detour is a very good asset as well. But Tony, are you at all concerned that Detour, in the end, it is higher cost. How does this change your cost profile for the company? Are you at all concerned that this could impact your premier multiple?

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

Well, when you look at the cost structure at Detour, and yes, I mean, it looks like it's a higher cost structure but when you look at the volume of the margin -- so if you don't -- if you take away from the unit cost and you look at the volume of the margin produced here, and the volume of the margin per share or new share created, this is actually very accretive for -- in terms of that perspective. So I think it's -- and if you get a sense of --





you have an opportunity to have an asset that's producing currently 600,000 ounces that can grow. And we talk about growing substantially, and Mick indicated something in the average 75,000 tonnes day, being able to potentially grow that to even higher levels because the mine itself in the current deposit is not limited to production rate, it's really at the processing level. So as we continue the future growth, you can see the significant more expansion in terms of margin on a per dollar basis as of -- in that light, regardless of whether the costs are slightly higher.

---

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

And sorry, 1 last follow on question, if I can, from a client here. Was there any consideration about cash component for the consideration? And just given how accretive this transaction is, would it have made sense to have a cash component?

---

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

We never really discussed a cash component, I mean, we see cash as being our ability to create value for our shareholders in a number of different ways. And we see that we -- the value using the shares here was a really good deal for the shareholders at Kirkland Lake and continues to keep the financial strength of the company to develop -- to, sorry, create value for shareholders by investing that money in whatever way we -- in the ways we have in the past, as well as continue to not only provide disbursements to shareholders to growing dividend -- sustainable and growing dividend as well our NCIB. So we see this as -- cash is very important to us in terms of what we do.

---

**Operator**

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

---

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

A follow-up to Cosmos' question on the synergies. What is the base point used as a reference for the synergies going forward? And do they include some of the synergies that Detour has disclosed in their most recent quarterly?

---

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

What do you mean by the base point of the synergies? So I -- may be I...

---

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

Kind of where they're operating on an operating and capital basis with Q3? And you're seeing that \$75 million to \$100 million improvement from there going forward? Or is it in addition to what Detour has (inaudible) their synergies with the renegotiated contracts?

---

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

It would be in addition to what Detour has talked about in terms of renovation -- renegotiated, but going forward.

---

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

Okay. Any kind of improvement from, like, kind of baseline OpEx and CapEx?



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

Again, it's the ability to focus on things that help to not only grow production but grow production at lower costs, which was similar to what we did previously in Kirkland Lake Gold. Through value creation, where you produce more units at less cost per unit by investing in -- sorry, more gold ounces at less cost per ounce of gold by investing in capital, by growing resources and growing production.

---

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

Okay. And it kind of leads into the next question. You talked about expansion potential, Mick has kind of addressed a bit of kind of low hanging fruit with the permit change allowing the mill to kind of move up to higher throughput rate. Are you guys looking at a capital like that was kind of all being that \$0 cost confusion there? Are you looking at the opportunity to invest in either of the mill or -- and/or the mine to boost it beyond that?

---

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

Of course, yes.

---

**Operator**

You're next question is from the line of Kerry Smith with Haywood Securities.

---

**Kerry Smith** - Haywood Securities Inc., Research Division - VP & Senior Mining Analyst

Mick, did you have a sense, perhaps, just even in your mind as to how long you think it might have taken to get the mine optimized? You've kind of just early in and that maybe a second or third inning in this process. Did you have a sense for how long you thought it might have taken to get there on your own?

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

Well, we had a bit of a view that this was probably an 18-month to 2-year process, I think. And we'll be about 10 months through by the time we -- this thing closes. And I would say that we've made very good progress with the team on the -- like the commercial contract renegotiation went actually quicker than we thought it might take. The mine plan optimization went quicker. The thing that we're still waiting on is to update the resource again, to incorporate whatever the reserve reconciliation ends up being. That's really the one key bit that we've sort of still got to do. And I guess our frame of reference was just given the history of the company, what can we do in or 0 or very low CapEx type way. I think what Kirkland is looking at is sort of removing those blinkers of the capital constraint. And looking at, as Tony said, probably, spending more on exploration in a year than there's been spending 5 years. Looking at whether you go for a third line on the mill and stuff that we -- like we just wouldn't consider that because that wouldn't be something that would be a good narrative for us at this point in time. So on our sort of plan and the stuff that we had to get done, yes, it's probably an 18-month process and may be we're close to half way through that. But I would say, the benefits we've got not half but a bit more of the benefits. But we can see -- but I think where Tony is coming from is that there are benefits that are available collectively to our shareholders that we would not get sort of carrying on our own way.

---

**Kerry Smith** - Haywood Securities Inc., Research Division - VP & Senior Mining Analyst

Okay. And can you talk a bit may be both CEOs as to -- to do due diligence process that you undertook when it started and what was actually done?

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

Well, we've been -- we've had the -- we've been talking -- and you're doing this since about mid- to late August of this year. And it's been combined visits and a lot of work on doing internal and -- internal documents, et cetera. I think Mick and the team from Detour has also visited our -- the mines here. But I'll let them speak to what they did on the due diligence.

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

Yes, look, obviously, because it's an all-stock deal, we needed to be accountable on the assets that are sitting within Kirkland. So we had both internal and external people looking at those. And I guess, our Board formed a view and we felt that it was an appropriate transaction. And obviously Fosterville is a pretty amazing asset in terms of its cash flow generation. And again, coming back to what we were looking for and what our shareholders were looking for was to be not a single-asset business. And obviously, if you're combining with a very low-cost producer -- and I think the comment about was there a cash consideration thought about, I think one of the key differentiators between us of this combined entity and the rest of the market now is very strong free cash flow generation and a world-class balance sheet, \$600 million, \$700 million of big cash, probably \$800 million by the time the deal closes, with no debt. I think really puts this combination in a class of its own, really.

---

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

Actually if you just look at some of the business combinations have happened over the last 2 years in our industry, you've taken maybe there is sort of how you want to put it there, it's symbiotic type of relationships where you needed to take -- everybody had to try to fix themselves. Well, this is one where no party needs to fix themselves. You just take 1 plus 1 and you really get 3 or 5 out of this transaction. You think 2 good companies with a lot of momentum and both put it together and you continue to build on that momentum.

---

**Kerry Smith** - Haywood Securities Inc., Research Division - VP & Senior Mining Analyst

Okay. And Mick, would you have run an exclusive process with Kirkland? Or did you look at other properties as well?

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

Well, look, all of that information will be in the circular. So that will come out sometime in December, and I think that's -- that will really be the appropriate time to give the background of the transaction.

---

**Kerry Smith** - Haywood Securities Inc., Research Division - VP & Senior Mining Analyst

Okay. And just 1 last question, if I could. What would the total onetime cost be to complete the deal, Tony?

---

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

This transaction?

---

**Kerry Smith** - Haywood Securities Inc., Research Division - VP & Senior Mining Analyst

Yes.

---



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

It's enlisted in our press release, the \$4.9 billion value.

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

I think he wants the closing cost.

---

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

The closing cost? I think that's still going to come out in the circular when it's done.

---

**Operator**

Your next question is from the line of Ovais Habib with Scotiabank.

---

**Ovais Habib** - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

Look a lot of questions have already been answered. But just for Mick, going back to the expansion potential at Detour that you talked about going from [75] to [80] to [85]. Just keep in mind that I don't cover Detour. So I'm just looking for some high-level question -- answers over here. But what's really changed between going -- having that ability going from getting around [60s] to going at towards the [75,000 tonnes] and then really moving towards looking to go to 85,000 (sic) [80,000 tonnes] to 85,000 tonnes per day?

---

**Michael James W. McMullen** - Detour Gold Corporation - President, CEO & Director

Yes. Again, actually, this is one of the reasons we are doing a joint call is for people who are unfamiliar with the story or across what's happened in the last 6 months. I think it's fair to say that historically, the maintenance practices of this operation, both in the process plant and the mobile fleet have been less than stellar. And so if you run stuff to break down as opposed to doing planned maintenance, that's what you get, the plant breaks down a lot. At the start of the year, we had a backlog of 50,000 man hours of maintenance items in the process plant. And as we've been doing the work, every shutdown, you can see the rate of planned shutdowns to catch up on that then obviously as you fix that stuff than the plant doesn't break down as much. The other key thing, and we haven't put it in the slides because we're trying to squeeze a lot in, is that we've done a blasting fragmentation project, which has been very successful. We're spending a little bit more money on explosives in the pit. However, that gets us a much better product into the process plant -- into the crusher, which in turn gives us a more uniform product in the mills, which means we're plugging the crusher up as often. So again, more run time. But it also means that the throughput on an hourly basis through those plants has gone up because we're getting a more finer feed into the mills. So again, it just comes back to -- it's the same equipment. It's to get more out of our fixed equipment and our mobile fleet in the plant, same issue in the plant. And again, empower the people, bring in a few select outside people who have the skill set to drive better practices. And it's just changing our mining practices. Again, we're not -- this is not rocket science, we're not trying to reinvent the wheel. It's do very good mining practices and then all of a sudden you get the results. So that's frustrating for our operators to have to dial the process plant back the last 2, 3, 4 hours of a day. We know that plant will do more, but we can't get through that permit on a daily basis. So we're in the process of amending that permit, and then we will let that new run.

---

**Ovais Habib** - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

So in terms of the amendment to permit, I mean, is there any time line that you guys have discussed internally? Or is that you guys are going to be giving that information shortly?



**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

Well, we've get -- we've given it on our Q3 call from memory. And so we're not -- we don't want to prejudge a permitting process. It has to go through a process. But we, in our minds, we're thinking at the start of 2021 as probably when we can start turning that thing up a bit.

**Ovais Habib** - *Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining*

Got it. That's great. And just, Tony, moving on to Australia. Now obviously, you guys have been pushing forward pretty hard on the Northern Territory, trying to bring that project up and around and doing a lot of exploration work there, looking at restart that project. Does this change with now if assuming Detour acquisition goes through? And is that change anything on Australia's strategy?

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

No it doesn't change anything on Australia at all. They -- it's mutually exclusive of each other. And in terms of Northern Territory, we recently -- we talked back in October, we turned the mill on and mill has been operating and we're processing material. And we're really trying to get a handle on understanding the resource and mining there. And we expect that we've been making a lot of progress in terms of that program so -- at that asset. And it highly prospective area, large land position, really 3 or 4 different operating sites that we can -- we're exploring and we can mine from. And we have a 4,500 tonne a day mill plant that's sitting there that's -- that had been idle for a long time that we're starting to turn on and use. So this doesn't take away from what we're doing in Northern Territory whatsoever.

**Ovais Habib** - *Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining*

And in terms of then -- in terms of pecking order, I mean in terms of Foster being -- Fosterville being a large component of your NAV right now, and obviously if Detour comes in, is there a focus on exploration wide in terms of which asset will get more focus?

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

I think, I'd like to put it in perspective that all of our assets that there are assets, we will -- we look after them all equally the same way, none gets more attention the other. Same as if you have 5 kids, you look after all 5 of your kids the same way. They're all important to us, they all have value, great. And we'll do what we need to do it try to, again, to identify what we think is opportunity to create value for our shareholders by really demonstrating the potential that's there. So it's not -- again, the financial strength of this company. And really and truly if you look at the performance at Detour and what it's been doing in terms of generating cash, it will be able to self-fund itself. So really and truly we're not really -- in the long term not bringing much to the table. Just allowing it to self-fund itself and put that money to work to creating value at that operation.

**Operator**

Your next question comes from the line of John Tumazos with John Tumazos Private.

**John Charles Tumazos** - *John Tumazos Very Independent Research, LLC - President and CEO*

This is John Tumazos. Can you hear me?

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

Yes, we hear you, John.



---

**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

Yes.

---

**John Charles Tumazos** - *John Tumazos Very Independent Research, LLC - President and CEO*

Congratulations. Is it fair to view this as sort of a stabilizing transaction where you don't have to worry about the quarterly ore grade switching between 20 gram and 40 grams? The reserve life is very long, and you're only paying about 15% over book value than you probably can under purchase accounting write that off. So you're not creating a huge intangible in terms of opportunities. Is that a fair way to approach it?

---

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

No. I think maybe it -- the way to see this, this was an opportunity that was -- there was a value enhancing opportunity really it sits on its own merit that there's value here that can be unlocked at Detour that it didn't do -- there was nothing wrong -- it doesn't do anything to take away from what was happening at Fosterville or Northern Territory in Australia or what's happening at our other Canadian assets. This was an opportunity that was here and that had its own value-creating that we could really bring to the table and create new value for the Kirkland Lake shareholders.

---

**John Charles Tumazos** - *John Tumazos Very Independent Research, LLC - President and CEO*

So Tony, the price you're paying is just larger than the book assets of Kirkland. If you earn \$2.30 per Detour share from Detour to get a 10% ROE, it would lower your 36% ROE to 23%. Does it bother you that the rate of return is mortal compared to the superhuman returns you've been enjoying?

---

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

Actually, what we see, John, is that we -- again, as Mick alluded to some other things that have been progressing on in terms of the ability to increase production and increase value here that -- and maybe there will be some short-term looking like that. But in the long-term, this will bring value equal or more value back to the table.

---

**Operator**

Your next question is from the line of [Connor O'Brien] with [Scott Mining].

---

**Unidentified Analyst**

It's not Connor. It's [Eric] actually. Can you hear me? Actually knowing -- my history with Kirkland, I pretty well know Kirkland. But I want to ask Mick a question if I may. And the question is, in your third quarter report you suggested that you I think produced 60,000 ounces of gold in the quarter which was a record. And my question is this. In this quarter and going into 2020, is that a rate that you expect you can continue to accomplish?

---

**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

Well, it was a 60,000 ounces in the month of October. And I don't know if I have the forecast there. That's on an annualized basis 720,000 ounces a year. That was a particularly strong month. We are forecasting, if you sort of back calculate where we were at the end of Q3 and where our guidance is for the fourth quarter, we'll be somewhere around about 160,000 ounces, I think, maybe a little more. That's probably a more closer sort of run rate of where we see this thing going before we expand the mill throughput. Obviously, once you start putting more dirt through the mill, the pit

will deliver more. So the pit will deliver more, the mill will physical do more unconstrained by the permit. Once we do that, then obviously, than you -- than you'll actually get up more again.

---

**Unidentified Analyst**

Maybe I could ask a follow-up question here. In your projections, you've suggested that the AISC could get down as low as \$1100. Was that a calculation for the fourth quarter or for the year, cumulative year?

---

**Michael James W. McMullen** - *Detour Gold Corporation - President, CEO & Director*

That's for the year. And again, if you back calculate, you work out that actually it's probably a bit lower than for Q4. And what we also said is, we see all-in sustaining cost getting down around the \$850 to \$900 an ounce just through the stuff we're doing before any of the stuff that Kirkland is going to bring to the table in terms of these other synergies and stuff. And obviously, if you expand the mill even more and you sort of look at that lowering the kind of grade then obviously you can get down a bit -- you'll get that cost down a bit more as well.

---

**Operator**

Your next question is from Fahad Tariq with Crédit Suisse.

---

**Fahad Tariq** - *Crédit Suisse AG, Research Division - Research Analyst*

Sorry, my questions have already been answered.

---

**Operator**

And there are no other questions. At this time, I would like to turn the call back over to Mark Utting for closing remarks.

---

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

Well, thanks very much, operator. And again, thanks, everyone for participating in the call today. As you've heard, we're all very excited about this transaction. We see it creating value to shareholders of both companies immediately on closing. And just as important, if not more so, it's the potential for greater value by bringing a balance sheet, investment in ensuring continued optimization possible expansion and heaving commitment to exploration at Detour Lake. So there is going to be a lot going on as we approach the shareholder votes in January. We look forward to continuing to update you. And we think the future looks very great indeed. Thanks, very much, and have a good day.

---

**Operator**

Thank you, for joining today's conference. This concludes the webcast. You may now disconnect.





**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.