



A High-Quality Gold Miner for Under \$5 That's Poised to Soar

Description

Rising geopolitical tensions, worries that Trump's much-vaunted fiscal stimulus will fail to eventuate, and the increasingly erratic statements coming from his administration have triggered jitters among financial markets.

This bodes well for the outlook for gold.

A compelling means of profiting from firmer prices is by investing in gold miners because of their leverage to the price of gold. This multiplier effect essentially boosts the potential returns that investors can receive. An appealing opportunity at this time is small-cap miner **Klondex Mines Ltd.** (TSX:KDX)(NYSE:KLDX).

Now what?

Klondex owns and operates the Fire Creek underground mine in Nevada, which is considered to be the highest-grade underground mine in the world. Its other mines and exploration properties along with Fire Creek give it total gold reserves of over 572,000 ounces.

One of the most appealing aspects of Klondex's gold reserves are the high ore grades. The Fire Creek mine's reserves have a grade of an astounding 42 grams of gold per tonne of ore, or double that of **Kirkland Lake Gold Ltd.'s** (TSX:KL) Macassa operation, which is an extremely high grade mine.

This is important to note because the greater the concentration of the metal in the surrounding ore, the more economic it is to extract. The cash costs per ounce of gold produced at the Fire Creek mine came to US\$410 per ounce for the first quarter, which is among some of the lowest production costs in the industry. Impressively, these were 20% lower than the US\$514 per ounce reported by Kirkland for its Macassa mine and underscore the profitability of Fire Creek.

Klondex's company-wide all-in sustaining costs for the first quarter were US\$1,719 per ounce. At first, the costs appear quite high, especially compared to its peers. But the high costs are associated with its recently acquired True North mine in Canada, which is in the process of being ramped up towards full production.

For Klondex's core operations located in Nevada, all-in sustaining costs came to a more reasonable US\$1,082 per ounce. This represents a moderate 1% increase year over year, which can be attributed to an increase in capital expenditures for Hollister — an exploration-stage property.

The miner continues to reduce operational costs through identifying and implementing further efficiencies at its operations with a focus on its flagship Fire Creek mine.

Klondex's first-quarter results indicate that the miner is on track to meet its 2017 guidance. It has forecast minimum production of 210,000 ounces for the year, which is an impressive 30% increase over 2016, nicely positioning Klondex to cash in on higher gold prices.

The miner is also well positioned to unlock further value for investors because of the considerable exploration upside offered by its properties, especially the Hollister acreage and True North mine. This makes it highly likely that its gold reserves will increase, supporting further production growth.

Importantly, Klondex possesses a solid balance sheet and high degree of liquidity. At the end of the first quarter, it had a mere US\$19 million of debt along with US\$29.6 million of cash on hand as well as US\$23 million available and undrawn from an existing credit facility.

So what?

Investing in gold mining majors may be a less risky means of taking advantage of higher gold prices.

However, because of Klondex's high-quality assets, notably the Fire Creek mine, its exploration upside and healthy balance sheet offer considerable potential. The recent dip in its stock, down by 12% over the last month, leaves it attractively valued, creating an opportunity for investors.

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