



Have You Considered Klondex Mines Ltd.?

Description

Most investors haven't heard of **Klondex Mines Ltd.** (TSX:KDX) yet, but that relatively unknown status is about to disappear.

Klondex is an intermediate gold miner with operations in Canada as well as the U.S. Among the mines the company owns and operates, the Fire Creek mine is widely regarded as the highest-quality underground mine in the world.

Precious metals prices have steadily increased over the course of the past two years, following several years of depressed prices that saw gold collapse from the US\$1,900 per ounce level in 2011, reaching the sub-US\$1,100 per ounce level over a year ago. During that period, gold producers often turned to cost-cutting efforts and efficiency improvements to minimize losses until prices recovered.

With gold prices now recovering from those levels, the cost-cutting and efficiency improvements of the past few years have become a welcome boost to the bottom line, making gold miners such as Klondex intriguing investment options.

Klondex has immense growth potential

The first thing that is interesting about Klondex is the impressive production growth the company has registered over the past year.

Klondex recently provided an operational update on the most recent quarter, where the company realized production growth of 94% over the previous quarter. Klondex's production guidance for the fiscal year is currently set in the 210,000-225,000 ounces range, which is an incredible 36% year-over-year change.

Gold is currently hovering just shy of US\$1,300 per ounce and industry experts still believe the precious metal could surpass and stay above the US\$1,300 per ounce level by the end of the year.

That bodes well for Klondex for a few reasons.

First, Klondex is set to begin scaling up production at both the True North and Hollister mines. The True North mine in particular was the subject of a recent report by Klondex which indicated that gold reserves were 25% higher than previously thought. Assuming that gold continues to appreciate, Klondex should see a significant boost to earnings.

Second, that increased production ramp-up at both the True North and Hollister mines comes at an added cost, which is deceptively skewing the all-in sustaining cost of the miner to be higher than it should. Once that ramp-up is complete and the mines are producing more gold, costs will drop across the board.

Klondex's operational update for the most recent quarter is just as promising. Klondex produced over 66,000 gold equivalent ounces in the quarter and sold off 69,522 gold equivalent ounces. The company also mined 53,248 gold equivalent ounces in the quarter, which falls into the expected volume for the quarter.

Year to date, Klondex has produced 101,019 gold equivalent ounces at its three mines, and it will begin processing at an additional mine later this year.

Klondex is slated to report financials for the second quarter later this month, and, in my opinion, remains a great opportunity for investors looking to add a gold miner to their portfolios.

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