

Klondex Mines Ltd.^{1,7}

BUY

KDX-TSX

February 23, 2015

 Last: **C\$2.60**
 Target: **C\$3.50**

FLASH: Impressive grades announced in initial reserves at Fire Creek and Midas

- This morning, Klondex announced initial reserves at Fire Creek and Midas in Nevada. Both reserves were run at \$1000/oz Au and \$15.83/Ag. The reserves are based on resource estimates run at \$1200/oz Au and \$19/oz Ag with effective dates of December 31st, 2014 and August 31st, 2014 at Fire Creek and Midas, respectively. Gold and silver recoveries of 94% and 92% were used.

Figure 1: Initial Reserves at Fire Creek and Midas

Fire Creek	Tonnage (k tons)	AuEq (k oz)	AuEq (opt)	AuEq (g/tonne)
Proven	80.9	119.6	1.48	50.7
Probable	104.9	121.8	1.16	39.8
	185.8	241.4	1.32	45.2

Midas	Tonnage (k tons)	AuEq (k oz)	AuEq (opt)	AuEq (g/tonne)
Proven	134.1	78.8	0.59	20.2
Probable	108.1	53.8	0.50	17.1
	242.2	132.6	0.55	18.9

Source: KDX news release

- At Fire Creek, the company noted that the reserve represents a 3.8 year mine life, which outlines a slightly lower tonnage, higher grade operation in the near term than we currently model (~150tpd average at 1.3oz/t vs. our 200tpd at 1.12oz/t estimate in 2015, which we currently model expanding to a long term 600tpd rate at a LOM average grades of 0.75oz/t). The reserve at Midas represents a 2.8 year mine life with grades of 0.55oz/t vs. our 0.35oz/t average over the same period at ~450tpd. We also note that at \$1000/oz gold and \$15.83/oz silver, these reserves likely represent slightly higher grade estimations of what will be mined given current metal prices of ~\$1200/oz gold and ~\$16.50/oz silver.
- The company also outlined costs resulting from the mine plans to be released with the filing of the technical reports. At Fire Creek, operating costs of \$460/t ore were reported while total costs (inclusive of capital) per ounce gold came in at \$503/oz. If we convert this to our AuEq measure, operating costs of \$354/oz AuEq compare favourably to our \$508/oz AuEq estimate over the next ±4 years, total costs come in at \$497/oz AuEq vs. our \$650/oz AuEq estimate over the same period. We assume annual capital on exploration and development in the \$12-15mm range as the company expands the resource (+ reserve) base further into the West Zone, North/Far North and at depth in all zones.

Share Statistics

Shares o/s (mm, basic/f.d.)	121/146
52-week high/low	\$2.80/\$1.68
Market capitalization (mm)	\$315
Projected return	35%

All figures in Canadian dollars, unless otherwise stated.

 [Current Chart](#)

 [Previous Research](#)

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- At Midas, operating costs of \$315/t convert to \$575/oz AuEq vs. our \$735/oz AuEq over the next ± 3 years and total costs of \$932/oz gold convert to \$644/oz AuEq vs. our \$950/oz AuEq estimate. Again, we assume ~\$15mm in annual exploration + development capital, with significant targets remaining at Midas.
 - The reserve estimates were completed by Practical Mining LLC, with technical reports (and accompanying mine plans) expected to be filed on SEDAR within 45 days (and likely by the end of March). We note that Klondex also plans to release official 2015 cost guidance in March at which time we will review our mine models in detail.

Impact: Positive

- The initial reserves announced at Fire Creek and Midas came in with higher grades than we had anticipated (and currently model). We note that the reserves are run at \$1000 Au/\$15.83 Ag, providing significant downside protection while only extracting ~31% and ~16% of the global resource bases of 784k oz AuEq and 813k oz AuEq at Fire Creek and Midas (although run at higher metal prices of \$1200 Au/\$19 Ag), respectively. These resource bases (which we continue to expect to grow) provide ounce feed well beyond the current 3.8 and 2.8 year reserve lives at the two operations.
- Outside of the mine plans accompanying filing of the technical reports and ongoing drilling (\$33mm is being spent across both assets), significant upcoming catalysts include permits for a small tailings dam expansion at Midas (boosting capacity by ± 2 years ahead of a new longer term, larger facility) expected mid-year and the full-production NEPA permit at Fire Creek (expected 2H15).

Recommendation: Maintain BUY rating and \$3.50 target

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