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## Klondex Mines moves into marketing mode

BY TRISH SAYWELL

Blane Wilson is a man on a mission. The recently appointed president of **Klondex Mines** (KDX-T, KLNDX-O) wants to market the junior like it's never been marketed before.

"As a company we've done a poor job of marketing and we're the first to admit it," Wilson says during a recent break between meetings with the investment community in Toronto. "Previously our focus was expanding our resource and getting permits."

Wilson's stop in Toronto was the last on a three-city tour including Florida and New York.

The closely held company has been around for a long time but it hit the headlines in June 2009, when **Silvercorp Metals** (SVM-T, SVM-X) attempted an unsuccessful all-share takeover bid, hoping to get its hands on the junior's advanced-stage Fire Creek gold project in Nevada.

"Silvercorp's bid demonstrated that the valuation of Klondex was way too low and management looked at it and said: 'Wow, at the pricing we're at right now, we're definitely a target and as we approach our underground workings that's only going to get worse,'" explains Bryson Goodwin, Klondex's director of investor relations. "If you don't tell your story, no one buys your stock."

That story begins with chairman and chief executive William Solloway, now in his early eighties, who staked the company's flagship Fire Creek property in north-central Nevada in the late 1970s and has been quietly developing it ever since. Klondex has about 1,200 shareholders and 32.6 million shares outstanding.

Solloway, a lawyer by profession, holds about 14% of the junior's 32.2 mil-

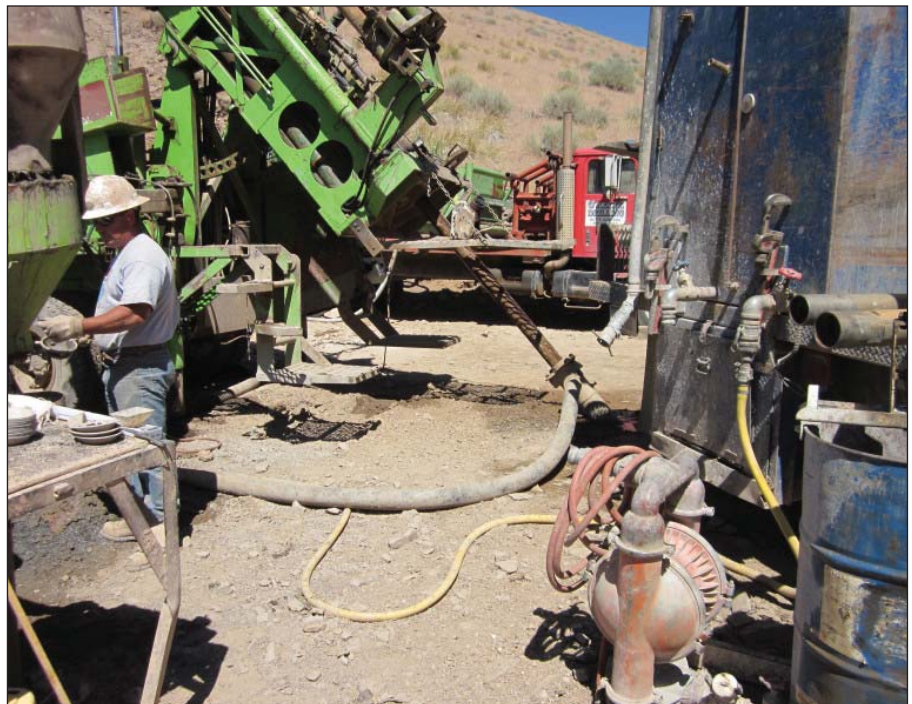
lion outstanding shares with other members of the management team holding about 6%. Institutional investors make up the majority of the rest, Wilson says, and include Texas-based U.S. Global Investors, which holds about 7.5%. U.S. Global specializes in gold, natural resources, emerging markets and global infrastructure opportunities.

Fire Creek is about 105 km west of Elko near the centre of the Battle Mountain gold belt in Crescent Valley. The property is about 16 km northwest of **Barrick Gold's** (ABX-T, ABX-N) Pipeline deposit and 8 km southeast of **Newmont Mining's** (NMC-T, NEM-N) Mule Canyon deposits. (Newmont owns roughly 1 million shares in Klondex, Wilson notes.)

In its early years, Klondex and many others believed Fire Creek was just another low-grade, high-tonnage Carlin-style deposit that would be amenable to open-pit mining. But geological data in the late 1980s from the nearby Midas and Mule Canyon deposits hinted of a deeper, higher-grade epithermal deposit. Then in 2004, Klondex drilled deep and hit 411 grams gold per tonne over 1.5 metres.

"Nobody was drilling deep enough," Goodwin explains. "They'd drill 500 ft., then stop. But most of what Klondex has is below 500 ft."

Today, Fire Creek has an indicated resource of 5 million tonnes grading 10.1 grams gold for contained gold of 1.64 million oz. and an inferred resource of 1.8



KLONDEX MINES

A worker tends to drilling equipment at Klondex Mines' Fire Creek project.

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million tonnes grading 8.6 grams gold for 0.5 million oz. contained gold.

The company has completed 270,000 ft. (82,296 metres) of surface drilling in 150 holes and an induced polarization (IP) survey has identified 15 new resource targets. Now it's nearly ready to drive a 4,000-foot (1,219-metre) decline to access underground mineralization and has hired mining contractor Small Mine Development to do it.

The goal of the underground program is exploration and infill drilling as well as bulk sampling for metallurgical tests. By going underground, Wilson says, Klondex can significantly shorten the length of its drill holes while cutting costs and

exploration time.

Wilson says he expects Klondex will receive its bulk sampling permit shortly, and has already posted a US\$1.4-million reclamation bond with the Bureau of Land Management.

A bulk sampling permit enables the company to extract and process up to 36,500 tons of mineralized material per year and Klondex plans to target bonanza grade ore blocks averaging more than 1 oz. gold per ton. That works out to production of about 36,000 oz. gold a year. At current gold prices, the company calculates annual income generation of nearly US\$40 million, which could potentially support its operations while

building a cash reserve for further exploration and pursuing full-scale mining permits.

Wilson anticipates receiving a full mining permit by 2012 and says that Klondex wants to bring Fire Creek into production on its own. "We believe we have one of the top resources in the country," he says. "We've only drilled 17% of the property but there's a lot of interest in it."

At presstime in Toronto, Klondex was trading at \$1.60 per share and over the last year has traded in a range of \$1.15-\$1.93.

"We're very, very, undervalued," says Goodwin. "If you do an analysis of our stock, it works out to about US\$20 per. oz gold in the ground."