

Klondex Mines Ltd.
Consolidated Financial Statements
December 31, 2007 and 2006

Klondex Mines Ltd.**Consolidated Financial Statements**

December 31, 2007 and 2006

Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Loss and Deficit	5
Consolidated Statements of Deferred Acquisition and Exploration Expenses	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8-22

Auditors' Report

**To the Shareholders of
Klondex Mines Ltd.**

We have audited the consolidated balance sheets of Klondex Mines Ltd. as at December 31, 2007, and 2006, and the consolidated statements of loss and deficit, deferred acquisition and exploration expenses and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007, and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
February 28, 2008

"MacKay LLP"
Chartered Accountants

Klondex Mines Ltd.**Consolidated Balance Sheets**

December 31,	2007	2006
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 4,239,422	\$ 8,920,320
Marketable securities (note 4)	466	459,404
Prepaid expenses	24,553	8,881
Accounts receivable	47,609	48,838
Due from related parties (note 14)	21,562	13,161
	4,333,612	9,450,604
Rent deposit (note 5)	16,375	16,375
Property and equipment (note 6)	41,991	46,063
Mineral properties and related deferred expenses (note 7)	15,769,182	10,379,959
Reclamation bonds (note 8)	204,975	98,956
	\$ 20,366,135	\$ 19,991,957
Liabilities		
Current		
Accounts payable and accruals	\$ 543,777	\$ 368,826
Asset retirement obligation (note 8)	204,975	98,956
	748,752	467,782
Deferred lease inducement (note 16)	7,388	10,663
	756,140	478,445
Shareholders' Equity		
Share capital (note 9)	27,009,163	25,777,601
Contributed surplus (notes 9 and 10)	2,233,225	2,157,245
Deficit	(9,632,393)	(8,421,334)
	19,609,995	19,513,512
	\$ 20,366,135	\$ 19,991,957

Subsequent events (note 17)**Approved by the Directors:****William J. Solloway (sgd.)** Director**Brendan Donohoe (sgd.)** Director

Klondex Mines Ltd.**Consolidated Statements of Loss and Deficit**

For the year ended December 31,	2007	2006
Administrative Expenses		
Amortization	\$ 14,526	\$ 13,765
Consulting fees (note 14)	148,433	177,466
Legal, audit and accounting	217,259	136,113
Management fees (note 14)	108,697	105,536
Office and miscellaneous	72,559	87,221
Stock-based compensation (note 10)	455,510	935,250
Telephone	18,954	14,470
Transfer agent and regulatory fees	116,258	24,977
Travel, accommodation, meetings	323,217	424,858
Foreign exchange	86,801	(139,844)
Interest earned	(309,955)	(309,732)
	1,252,259	1,470,080
Comprehensive loss and loss for the year	(1,252,259)	(1,470,080)
Deficit, beginning of year	(8,421,334)	(6,951,254)
Fair Value Adjustment on Marketable Securities (Note 2 and 4)	41,200	-
Deficit, end of year	\$ (9,632,393)	\$ (8,421,334)
Basic and diluted loss per share	\$ (0.06)	\$ (0.07)
Weighted average number of shares outstanding	22,765,141	20,951,925

Klondex Mines Ltd.**Consolidated Statements of Deferred Acquisition and Exploration Expenses**

Nevada Properties

For the year ended December 31,	2007	2006
Balance, beginning of year	\$ 10,379,959	\$ 5,703,605
Acquisition of land	157,080	58,319
Advance – Drilling	99,293	-
Assays and core costs	435,797	449,726
Consulting	321,067	436,874
Drilling	3,288,193	3,241,590
Environmental consulting and permitting	257,229	-
Field supplies and equipment	127,969	76,130
Geophysics	1,319	131,635
Lease payments, taxes and royalties	20,852	22,862
Legal	-	980
Maintenance fees	70,129	105,048
Mapping and sampling	61,055	12,929
Miscellaneous	37,450	35,057
Site reclamation	106,019	53,840
Site visits	40,347	51,364
Wells	365,424	-
Current year expenditures	5,389,223	4,676,354
Balance, end of year	\$ 15,769,182	\$ 10,379,959

Klondex Mines Ltd.**Consolidated Statements of Cash Flows**

For the year ended December 31,	2007	2006
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (1,252,259)	\$ (1,470,080)
Items not involving cash		
Amortization	14,526	13,765
Deferred lease inducement recognized	(3,275)	(3,275)
Foreign exchange	7,716	14
Stock-based compensation	455,510	935,250
	(777,782)	(524,326)
Change in non-cash working capital items		
Accounts receivable	1,229	(17,601)
Prepaid expenses	(15,672)	9,136
Accounts payable	28,156	(4,863)
	(764,069)	(537,654)
Financing activities		
Issue of share capital	852,032	11,831,530
Share issue cost, cash	-	(582,627)
Advances from (repayment to) directors	(8,401)	(25,177)
	843,631	11,223,726
Investing activities		
Proceeds from (purchase of) marketable securities	500,138	-
Purchase of property and equipment	(10,454)	(9,556)
Reclamation bonds posted	(106,019)	-
Accounts payable related to mineral properties	146,795	(26,363)
Deferred exploration and development expenditures	(5,283,204)	(4,622,514)
	(4,752,744)	(4,658,433)
Effect of foreign exchange on cash balances	(7,716)	(14)
Net increase (decrease) in cash and cash equivalents	(4,680,898)	6,027,625
Cash and cash equivalents, beginning of year	8,920,320	2,892,695
Cash and cash equivalents, end of year	\$ 4,239,422	\$ 8,920,320
Supplemental Cash Flow Information (note 11)		
The company had the following cash transactions:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-

December 31, 2007 and 2006

1. Nature of Operations

The Company is in the business of owning, acquiring, exploiting, exploring, developing and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company has interests in the properties all located in the State of Nevada, USA.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the company be unable to continue in business.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof.

2. Significant Accounting Principles**a) Changes in accounting policies**

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial instruments are measured at their fair value with changes in fair value recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents and marketable securities as held-for-trading. Receivables are classified as loans and receivables, accounts payable and accrued liabilities are classified as other liabilities, all of which are measured at amortized cost. As a result of application of Section 3855, the Company's deficit as at January 1, 2007 was reduced by \$41,200 to reflect the opening fair value of marketable securities.

December 31, 2007 and 2006

2. Significant Accounting Principles (continued)**b) Accounting changes implementation**

Effective January 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the company has not adopted because there are not yet in effect.

The impact the adoption of this Section will have on the Company's financial statements will depend on the nature of future accounting changes.

General standards for financial statement presentation

The CICA has amended Handbook Section 1400 "General standards of financial presentation, effective for periods beginning on or after January 1, 2008 to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section is not expected to have an impact on the Company's financial statements.

Capital Disclosures

In December 2006, the CICA issued Handbook section 1535 "Capital disclosures" which is effective for years beginning on or after October 1, 2007. The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new Section relates to disclosures and is not expected to have an impact on the Company's financial results when adopted on January 1, 2008.

Financial instruments

In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" to replace Section 3861. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007.

Section 3862 establishes standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007 and will be adopted by the Company on January 1, 2008. Transitional provisions are complex and vary based on the type of financial instruments under the consideration. The effect on the Company's financial statements is not expected to be material.

December 31, 2007 and 2006

2. Significant Accounting Principles (continued)**b) Accounting changes implementation (continued)****International Financial Reporting Standards**

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

c) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Klondex Gold and Silver Mining Co. ("Klondex Gold"), a Washington State, U.S.A. corporation. Klondex Gold is registered to conduct business in Nevada, U.S.A. All significant inter-company transactions have been eliminated.

d) Cash and equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash investments with institutions of high-credit worthiness.

e) Property and equipment

Equipment is amortized using the declining-balance method at a rate of 20% per annum for furniture and fixtures and telephone equipment and 30% per annum for computer equipment. Leasehold improvements are amortized on a straight line basis over the term of the lease.

f) Foreign currency translation

Monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the period. Amortization is converted using rates prevailing at dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statements of loss.

December 31, 2007 and 2006

2. Significant Accounting Principles (continued)**g) Mineral properties and deferred exploration costs**

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be amortized over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written-off to operations.

Recorded costs of mineral properties and deferred exploration expenditures are not intended to reflect present or future values of resource properties.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

h) Asset retirement obligations

The Company has adopted the CICA's Handbook Section 3110 "asset retirement obligations" which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future settlement value.

i) Loss per share

The Company uses the treasury stock method of calculating fully diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options has an anti-dilutive impact in 2007 and 2006.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. Significant Accounting Principles (continued)

j) Share capital

- i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the company.
- ii) Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the company's shares are charged directly to share capital.

k) Income taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

l) Stock-based compensation

The Company has adopted the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("Section 3870"). The Company measures all compensation costs at fair value using the Black Scholes method. Compensation is reflected in the consolidated statement of loss over the vesting period.

m) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those reported.

n) Measurement uncertainty

The future recovery of the recorded cost of the properties, and the provision for a future asset retirement obligation are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. Cash and cash equivalents

December 31,	2007	2006
Cash on deposit	\$ 401,093	\$ 920,294
Treasury bills (4.66% interest) _	3,838,329	8,000,026
	\$ 4,239,422	\$ 8,920,320

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

4. Marketable securities

During the year ended December 31, 2005, the Company purchased convertible debentures of the Retirement Residences REIT with a face value of \$500,000 for a cost of \$500,000. The convertible debentures bore interest at 5.5%, paid semi-annually and convertible at the option of the holder at any time up to the maturity date of March 31, 2015 at a price of \$11.35 per unit. At December 31, 2005 the market value of the debentures was \$458,850 and accordingly a write-down of \$41,150 was recorded. At December 31, 2006, the market value of the debentures was \$500,050, as disclosed in Note 2 the investment was marked to fair value, an increase of \$41,200. The REIT convertible debentures were redeemed on March 13, 2007 at 101% of the principal amount, which amount (\$505,000) was received by the Company.

The Company holds 100 shares of Coeur D'Alene Mines with a book value of US\$475 and a market value of US\$494.

5. Rent Deposit

As part of the lease agreement, the Company paid the last three months of the fourth year (2009) and the last four months of the fifth year (2010) of the lease term in advance. These deposits bear interest at approximately 4% per annum, receivable at the end of the fourth and fifth year of the lease term.

6. Property and Equipment

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,229	\$ 16,602	\$ 20,627
Telephone equipment	1,376	864	512
Furniture and fixtures	27,021	16,119	10,902
Leasehold improvements	24,736	14,786	9,950
	<hr/>	<hr/>	<hr/>
	\$ 90,362	\$ 48,371	\$ 41,991

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 28,370	\$ 10,726	\$ 17,644
Telephone equipment	1,376	765	611
Furniture and fixtures	25,600	12,689	12,911
Leasehold improvements	24,736	9,839	14,897
	<hr/>	<hr/>	<hr/>
	\$ 80,082	\$ 34,019	\$ 46,063

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

7. Mineral Property and Related Deferred Exploration Expenses

a) Fire Creek Gold Properties, Lander County, Nevada, U.S.A.

The Company has a 100% ownership interest in this land block which was expanded during fiscal 2003 by 2,720 acres to a total of 4,875 acres. In 1988, the Company entered into an agreement with two joint venturers to explore and develop the gold property. Under the terms of the agreement, Klondex received an advance minimum royalty of \$10,000 per month. The joint venturers terminated the agreement on March 31, 1999. As a result the Company has regained 100% ownership of the property and is not obligated to repay the advance royalty payments amounting to \$1,582,162 (US\$1,220,000). During fiscal 2002, the Company purchased the drill cores and data from the joint venturers for consideration of US\$4,000 and issuance of 15,000 common shares of the Company.

During fiscal 2004, the Company acquired 4 additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). These acquisitions were necessary to insure logistical access to the main mineralized zones and to acquire areas which represent the strike extensions of these zones.

During fiscal 2005, the Company acquired 5 additional blocks of land, which totaled 13 acres for \$65,686 (US\$53,594). In the second quarter of this year, an additional 100 acres were acquired for \$53,344 (US\$43,415). These new acquisitions bring the total acreage to 5,185 acres.

During fiscal 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490) to bring total acreage to 5,235 acres. The Company has now included the Woodtick and Corral Canyon claims to the greater Fire Creek Project area. The total unpatented claims within the project area now total 484 claims, or 9,680 acres and fee lands now total 1,028 acres.

i) Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada.

ii) Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek. These claims provide access to the northern Fire Creek block from the powerline road.

b) Lander & Eureka Counties, Nevada

During fiscal 2006, the Company entered into an option agreement to acquire a 100% interest (the "Option") in certain lands located in Lander & Eureka Counties, Nevada (the "Property"), from Fire Creek Lands, LLC (the "Optionor"). The Property has the potential for copper, silver, gold and other valuable mineral deposits. In consideration of the Option, the Company must make option payments in the aggregate amount of \$380,000 over a period of five years (US\$155,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

In the event of the outright purchase of the Property by the Company, the Optionor will retain a 3% net smelter royalty, with the Company having a one-time option to purchase one percent of the royalty in consideration of \$1,000,000, at any time until June 17, 2015.

c) Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area.

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

7. Mineral Property and Related Deferred Exploration Expenses (continued)**d) Hot Point Springs, Lander County, Nevada**

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley.

During fiscal 2006, the Company negotiated the principal terms of a 10 year lease of the Hotsprings Point Property to Vasquir Mines Inc. ("Vasquir") Under the negotiated terms, Vasquir would lease the property for an initial cash payment and share issuance, annual cash payments and exploration expenditures, and a scaled net smelter return royalty of a minimum of 3% to a maximum of 10%.

On December 5, 2006 the Company received a claim filed in the Nevada Supreme Court from Vasquir Mines Inc. ("Vasquir"), a subsidiary of CMQ Resources Inc. in relation to the lease agreement between Vasquir and Klondex Mines Ltd. for Klondex Mines Hot Springs Point property, located 8.5 miles southeast of the Fire Creek Property.

Subsequent to year end, the companies have agreed to amend certain language in the lease, which is still being negotiated. Additionally, Klondex has agreed to pay up to \$20,000 to Vasquir with respect to legal fees incurred.

e) Reef claims, Churchill county, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County.

8. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$204,975 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities since fiscal 2004, on the Fire Creek properties. The fair value of the liability \$204,975 was determined to be equal to the estimated drill well site remediation costs as it is assumed that remediation would commence within six months of year end. As at December 31, 2007 the Company has not commenced development of any property and accordingly a reasonable estimate of the timing of the cash flows can not be made. As a result the expected cash costs have been recorded as a current liability.

In the previous fiscal years, the Company posted non-interest bearing bonds of \$98,956 (US\$83,503) with the Bureau of Land Management in the State of Nevada as security for these obligations. During the year ended December 31, 2007, the Company posted additional non-interest bonds of \$92,470 (US\$80,000) and \$13,549 (US\$13,797) for a total of \$106,019 (US\$93,737). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost.

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

9. Share Capital**a) Authorized:** unlimited common shares with no par value**b) Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2005	17,151,317	\$ 14,431,926	\$ 1,318,766
Issued for cash			
Private placement	3,250,000	7,312,500	-
Exercise of options	280,000	212,000	-
Exercise of warrants	1,570,550	3,690,793	-
Exercise of agents' warrants	263,681	616,237	-
Fair value of options exercised	-	162,800	(162,800)
Fair value of agents' warrants exercised	-	254,747	(254,747)
	5,364,231	12,249,077	(417,547)
Share issue costs			
Commission	-	(511,875)	-
Agents' warrants	-	(320,775)	320,775
TSX filing fees	-	(32,000)	-
Legal fees & others	-	(38,752)	-
		(903,402)	320,775
Stock based compensation	-	-	935,250
Total increase (decrease) for the year	5,364,231	11,345,675	838,478
Balance, December 31, 2006	22,515,548	\$ 25,777,601	\$ 2,157,245

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

9. Share Capital (continued)**b) Issued (continued)**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2006	22,515,548	\$ 25,777,601	\$ 2,157,245
Issued for cash			
Exercise of options	150,000	109,500	-
Exercise of warrants	132,500	311,375	-
Exercise of agents' warrants	203,000	456,750	-
Return to treasury (agents' warrants)	(11,375)	(25,593)	-
Fair value of options exercised		93,300	(93,300)
Fair value of agents' warrants exercised		286,230	(286,230)
	474,125	1,231,562	(379,530)
Stock based compensation	-	-	455,510
Total increase (decrease) for the year	474,125	1,231,562	75,980
Balance, December 31, 2007	22,989,673	\$ 27,009,163	\$ 2,233,225

c) Options outstanding

A summary of the Company's outstanding stock options as of December 31, 2007 and 2006 and the changes during the year then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding and exercisable at December 31, 2005	1,565,131	\$ 0.80
Options granted (note 10)	645,000	2.35
Options exercised	(280,000)	0.76
Outstanding and exercisable at December 31, 2006	1,930,131	1.32
Options granted (note 10)	350,000	2.27
Options exercised	(150,000)	0.73
Outstanding at December 31, 2007	2,130,131	\$ 1.52

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

9. Share Capital (continued)**c) Options outstanding (continued)**

At December 31, 2007, there were 2,130,131 stock options outstanding, entitling the holders thereof the right to purchase one common share for each option held as follows:

Number of Underlying Shares	Weighted average exercise price	Exercisable	Weighted average exercise price	Exercise Price	Expiry Date
659,750		659,750		\$ 0.65	November 28, 2008
475,381		475,381		\$ 1.05	June 10, 2010
645,000		645,000		\$ 2.35	July 17, 2011
150,000		150,000		\$ 2.30	January 19, 2012
200,000		100,000		\$ 2.25	May 7, 2012
2,130,131	\$1.52	2,030,131	\$1.48		

d) Warrants outstanding

A summary of the Company's outstanding share purchase warrants at December 31, 2007 and 2006 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2005	1,875,300	\$ 2.29
Warrants granted	1,625,000	3.00
Agents' unit warrants granted	227,500	2.25
Agents' warrants granted	113,750	3.00
Warrants exercised	(1,570,550)	2.35
Agents' warrants exercised	(229,556)	2.35
Agents' unit warrants exercised	(22,750)	2.25
Agents' warrants exercised	(11,375)	2.25
Warrants expired	(74,450)	2.35
Agents' warrants expired	(744)	2.35
Outstanding and exercisable December 31, 2006	1,932,125	\$ 2.88
Warrants exercised	(132,500)	2.35
Agents' unit warrants exercised	(203,000)	2.25
Warrants expired	(2,500)	3.00
Warrants cancelled	(1,490,000)	3.00
Warrants re-priced and extended	1,490,000	2.35
Warrants expired	(1,490,000)	2.35
Agents' unit warrants expired	(1,750)	2.25
Agents' warrants cancelled	(102,375)	3.00
Agents' warrants re-priced and extended	102,375	2.35
Agents' warrants expired	(102,375)	2.35
Outstanding and exercisable at December 31, 2007	Nil	\$ Nil

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

10. Stock Based Compensation

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under TSX policies), or such other price as may be agreed to by the Company and accepted by the TSX. According to the 2007 stock option plan, the vesting periods of options granted under the plan may vary at the discretion of the Plan Administrator, subject to Regulatory approval.

During the year ended December 31, 2007 the Company granted directors, officers and consultants 150,000 incentive stock options at an exercise price of \$2.30 per share expiring on January 19, 2012 and 200,000 incentive stock options at an exercise price of \$2.25 per share expiring on May 7, 2012.

The fair value of the incentive stock options granted is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2007		2006	
	150,000 options	200,000 options	645,000 options	
Dividend rate	0.00 %	0.00 %	0.00 %	
Risk-free interest rate	4.07 %	4.17 %	4.30 %	
Expected life	5 years	5 years	5 years	
Expected annual volatility	93.22 %	90.71 %	98.00 %	
Strike price	\$ 2.30	\$ 2.25	\$ 2.35	
Spot price	\$ 1.88	\$ 1.83	\$ 2.00	

As at December 31, 2007, the total compensation expense for the vested portions expensed in the statement of operations and credited to contributed surplus was \$455,510 (2006 - \$935,250).

11. Non Cash Transactions

The following non-cash transactions were recorded during the year ended:

December 31,	2007		2006	
Operating activities				
Accounts payable related to property	\$	444,543	\$	297,748
Financing activities				
Contributed surplus allocated on exercise of options	\$	93,300	\$	162,800
Contributed surplus allocated on exercise of agents' unit warrants exercised	\$	286,230		-
Share capital allocated from contributed surplus	\$	(379,530)	\$	(417,547)
Fair value of agent's warrants granted	\$	-	\$	254,747
Asset retirement obligation recorded	\$	106,019	\$	53,840
Investing activity				
Asset retirement obligation recorded as mineral property costs	\$	(106,019)	\$	(53,840)

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

12. Income Taxes

At December 31, 2007, the Company has Canadian tax losses of approximately \$416,000 available for carry-forward. The Company has US tax losses of approximately \$1,387,000 available for carry-forward. If unused, the losses will expire as follows:

<u>Expiry Date</u>	<u>Canada</u>	<u>United States</u>
2027	\$ -	\$ 436,000
2026	172,000	170,000
2025	-	321,000
2024	-	162,000
2023	-	41,000
2022	-	39,000
2021	-	44,000
2020	-	32,000
2019	-	66,000
2018	-	78,000
2015	244,000	-
Loss for the year	\$ 416,000	\$ 1,387,000

The Company also has available mineral resource related expenditure pools totaling approximately \$16,000,000 which may be deducted against future taxable income on a discretionary basis.

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2007	2006
Net loss for the year	\$ (1,252,259)	\$ (1,470,080)
Statutory Canadian corporate tax rate	34.12%	34.12%
Anticipated tax expense (recovery)	(427,271)	(501,591)
Change in tax rates	48,466	-
Rate differential due to foreign operation	262,097	43,275
Items not deductible for tax purposes	160,230	327,474
Change in valuation allowance	(43,522)	214,770
Actual income tax recovery	\$ -	\$ -

The significant components of the Company's future tax assets are as follows:

December 31,	2007	2006
Property and equipment	\$ 2,096	\$ 3,138
Exploration deductions	83,912	41,716
Share issue costs	130,182	304,421
Capital loss	2,718	4,904
Non-capital loss carry forwards	770,271	686,045
	989,179	1,140,224
Valuation allowance	(989,179)	(1,140,224)
Net future tax assets	\$ -	\$ -

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

13. Financial Instruments

a) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2007 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 126,328
T-Bills	\$ 1,358,883
Marketable securities	\$ 475
Reclamation bonds	\$ 177,300
Accounts payable	\$ 485,672
Due from related parties	\$ 21,957

At December 31, 2007 US dollar amounts were converted at a rate of \$0.98201 Canadian dollars to \$1.00 US dollar.

b) Credit risk

At December 31, 2007 the Company held treasury bills and cash of \$3,998,517 (2006 - \$8,845,000) in an account with a Canadian brokerage firm. This amount is in excess of the \$1,000,000 insurance coverage provided by the Canadian Investor Protection Fund.

14. Related Party Transactions

The following transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

- a) During the year, the Company paid consulting fees of \$52,793 (2006 - \$91,000) and mineral property services of \$150,963 (2006 - \$82,000) to 3 companies controlled by each of 2 directors and an officer.
- b) During the year, the Company incurred salary & benefit expenses of \$70,101 (2006 - \$73,317) to the President.
- c) During the year, the Company incurred management fees of \$38,595 (2006 - \$32,219) and rent of \$6,380 (2005 - \$8,465) to a director.
- d) During the year, the Company incurred accounting fees of \$64,715 (2006- \$42,285) to an officer.
- e) Amounts owing from directors and/or officers of \$21,562 (2006 - \$13,161) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

Klondex Mines Ltd.**Notes to the Consolidated Financial Statements**

December 31, 2007 and 2006

15. Segmented Information

2007	Canada	United States	Total
Interest earned	\$ 309,955	\$ -	\$ 309,955
Expenses	(981,319)	(580,895)	(1,562,214)
Loss for the year	\$ (671,364)	\$ (580,895)	\$ (1,252,259)
Identifiable assets	\$ 4,227,429	\$ 16,138,706	\$ 20,366,135

2006	Canada	United States	Total
Revenue	\$ 309,732	\$ -	\$ 309,732
Expenses	(1,553,479)	(226,333)	(1,779,812)
Loss for the year	\$ (1,243,747)	\$ (226,333)	\$ (1,470,080)
Identifiable assets	\$ 9,440,985	\$ 10,550,972	\$ 19,991,957

16. Commitments

As at December 31, 2007, the Company has shared lease commitments for office space expiring in February 2010. Minimum lease payments including estimated taxes and excluding operating costs for each of the next three years are as follows:

2008	\$ 16,042
2009	\$ 16,042
2010	\$ 4,011

As an inducement to enter into the new office space lease the landlord funded \$65,000 of leasehold improvements on behalf of the 4 tenants. The Company's share of these improvements has been capitalized and the resulting deferred leasehold inducement will be recognized as a reduction of rent expense over the term of the lease.

17. Subsequent Events

On January 23, 2008, the Company granted 105,000 incentive stock options at \$2.30 per share, expiring on January 22, 2013, of which 26,250 options vest upon each of the three, six, nine, and twelve month anniversaries.

Regarding the claim the Company received on December 5, 2006 filed in the Nevada Supreme Court from Vasquir Mines Inc. ("Vasquir"), a subsidiary of CMQ Resources Inc. in relation to the lease agreement between Vasquir and Klondex Mines Ltd. for Klondex Mines Hot Springs Point property, the companies have agreed to amend certain language in the lease, which is still being negotiated. Additionally, Klondex has agreed to pay up to \$20,000 to Vasquir with respect to legal fees incurred. Refer to note 7(f) for additional information.