

Klondex Mines Ltd.
Consolidated Financial Statements
December 31, 2008 and 2007

Klondex Mines Ltd.**Consolidated Financial Statements**

December 31, 2008 and 2007

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**CHARTERED
ACCOUNTANTS**

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Auditors' Report

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

We have audited the consolidated balance sheets of Klondex Mines Ltd. as at December 31, 2008, and 2007, and the consolidated statements of loss, comprehensive 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, 2008, and 2007, 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
March 5, 2009**

***"MacKay LLP"*
Chartered Accountants**

Klondex Mines Ltd.**Consolidated Balance Sheets**

December 31,	2008	2007
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 1,848,289	\$ 4,239,422
Marketable securities (note 4)	108	466
Prepaid expenses	18,102	24,553
Accounts receivable	18,322	47,609
Due from related parties (note 14)	-	21,562
	1,884,821	4,333,612
Rent deposit (note 5)	14,054	16,375
Property and equipment (note 6)	31,976	41,991
Mineral properties and related deferred expenses (note 7)	21,282,764	15,769,182
Reclamation bonds (note 8)	217,122	204,975
	\$ 23,430,737	\$ 20,366,135
Liabilities		
Current		
Accounts payable and accruals	\$ 988,308	\$ 543,777
Overdraft – brokerage account (note 3)	1,107,398	-
Due to related parties (note 14)	147,555	-
Asset retirement obligation (note 8)	217,122	204,975
	2,460,383	748,752
Deferred lease inducement (note 16)	4,113	7,388
	2,464,496	756,140
Shareholders' Equity		
Share capital (note 9)	29,566,689	27,009,163
Contributed surplus (notes 9 and 10)	2,186,083	2,233,225
Deficit	(10,786,531)	(9,632,393)
	20,966,241	19,609,995
	\$ 23,430,737	\$ 20,366,135

Going concern (note 1)
Commitments (notes 7, 8 and 16)
Subsequent events (note 17)

Approved by the Directors:

William J. Solloway (sgd.) Director

Brendan Donohoe (sgd.) Director

The accompanying notes are an integral part of the consolidated financial statements.

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

For the year ended December 31,	2008	2007
Administrative expenses		
Amortization	\$ 12,329	\$ 14,526
Consulting fees (note 14)	128,988	148,433
Legal, audit and accounting (note 14)	144,555	217,259
Management fees (note 14)	111,914	108,697
Office and miscellaneous (note 14)	110,729	72,559
Stock-based compensation (note 10)	357,110	455,510
Telephone	19,195	18,954
Transfer agent and regulatory fees	60,401	116,258
Travel, accommodation, meetings	176,106	323,217
Other items (note 7(d))	19,934	-
Foreign exchange loss (gain)	64,128	86,801
Interest earned	(51,725)	(309,955)
	1,153,664	1,252,259
Other item		
Write down of marketable securities	474	-
	1,154,138	1,252,259
Net and comprehensive loss for the year	(1,154,138)	(1,252,259)
Deficit, beginning of year	(9,632,393)	(8,421,334)
Fair value adjustment on marketable securities (notes 2 and 4)	-	41,200
Deficit, end of year	\$ (10,786,531)	\$ (9,632,393)
Basic and diluted loss per share	\$ (0.05)	\$ (0.06)
Weighted average number of shares outstanding	23,318,488	22,765,141

The accompanying notes are an integral part of the consolidated financial statements.

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

Nevada Properties

For the year ended December 31,	2008	2007
Balance, beginning of year	\$ 15,769,182	\$ 10,379,959
Acquisition of land	297,560	157,080
Advance – Drilling	(99,293)	99,293
Assays and core costs	549,046	435,797
Consulting	363,745	321,067
Drilling	3,767,091	3,288,193
Environmental consulting and permitting	282,918	257,229
Field supplies and equipment	155,337	127,969
Geophysics	31,123	1,319
Lease payments, taxes and royalties	17,944	20,852
Legal	1,915	-
Maintenance fees	75,351	70,129
Mapping and sampling	520	61,055
Miscellaneous	57,026	37,450
Site reclamation	-	106,019
Site visits	13,299	40,347
Wells	-	365,424
Current period expenditures	5,513,582	5,389,223
Balance, end of year	\$ 21,282,764	\$ 15,769,182

The accompanying notes are an integral part of the consolidated financial statements.

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

For the year ended December 31,	2008	2007
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (1,154,138)	\$ (1,252,259)
Items not involving cash		
Amortization	12,329	14,526
Deferred lease inducement recognized	(3,275)	(3,275)
Foreign exchange	64,128	7,716
Stock-based compensation	357,110	455,510
Write-down marketable securities	358	-
	(723,488)	(777,782)
Change in non-cash working capital items		
Accounts receivable	29,287	1,229
Prepaid expenses	6,451	(15,672)
Accounts payable	(170,021)	28,156
Rent deposit	2,321	-
	(855,450)	(764,069)
Financing activities		
Issue of share capital	2,249,737	852,032
Share issue cost, cash	(96,463)	-
Advances from (repayment to) directors	169,117	(8,401)
	2,322,391	843,631
Investing activities		
Proceeds from (purchase of) marketable securities	-	500,138
Purchase of property and equipment	(2,314)	(10,454)
Reclamation bonds posted	-	(106,019)
Accounts payable related to mineral properties	574,280	146,795
Deferred exploration and development expenditures	(5,513,582)	(5,283,204)
	(4,941,616)	(4,752,744)
Effect of foreign exchange on cash balances	(23,856)	(7,716)
Net increase (decrease) in cash and cash equivalents	(3,498,531)	(4,680,898)
Cash and cash equivalents, beginning of year	4,239,422	8,920,320
Cash and cash equivalents, end of year	\$ 740,891	\$ 4,239,422

Supplemental Cash Flow Information (notes 3 and 11)

The company had the following cash transactions:

Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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. As at December 31, 2008, the Company had a working capital deficit of \$575,562 (2007 - \$3,584,860). 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. The Company is considering a number of alternatives to secure additional capital including additional funding facilities or equity raisings. Refer to note 17 – Subsequent events.

2. Significant Accounting Policies

Changes in accounting policies

a) 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 did not have an impact on the Company's financial statements.

b) 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. Additional disclosure in Note 13b was added to comply with this section on adoption on January 1, 2008.

December 31, 2008 and 2007

2. Significant Accounting Policies (continued)

c) Financial instruments

Under Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has designated its cash and cash equivalents, brokerage overdraft and marketable securities as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

Adoption of New Accounting Standards

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under Section 3862, *Financial Instruments Disclosures*, Section 3863, *Financial Instrument - Presentation* and Section 1535, *Capital Disclosures*. *Financial Instruments* Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3863 and Section 3865 *Hedges*. Section 3863 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

2. Significant Accounting Policies (continued)

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.

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.

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.

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.

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 mineral 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.

December 31, 2008 and 2007

2. Significant Accounting Policies (continued)**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.

Loss per share

The Company uses the treasury stock method of calculating 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 2008 and 2007.

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

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.

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.

2. Significant Accounting Policies (continued)**Stock-based compensation**

The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

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.

Measurement uncertainty

The future recovery of the recorded cost of the mineral 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.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

Impairment of long-lived assets

The Company has adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" and abstract EIC 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC 126") of the Emerging Issues Committee. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstance indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

2. Significant Accounting Policies (continued)

Impairment of long-lived assets (continued)

EIC 126 provides that an enterprise that is in the development stage with initially capitalized exploration costs that has not established mineral reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property, is not obliged to conclude that the capitalized costs have been impaired. However, such an enterprise should consider whether a subsequent write-down of capitalized exploration costs related to mineral properties is required.

Accounting Policies to be Adopted

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.

3. Cash and cash equivalents

December 31,	2008	2007
Cash on deposit	\$ 308,429	\$ 240,905
Jones Gable Canadian account	1,539,860	160,188
	1,848,289	401,093
Jones Gable US account (overdraft)	(1,107,398)	-
Treasury bills (2007 - 4.66% interest)	-	3,838,329
	\$ 740,891	\$ 4,239,422

As at December 31, 2008, the Company had an overdraft balance of \$1,107,398 (US\$901,294) in their US dollar Account with Jones, Gable & Company Limited. This overdraft is secured by the balance of \$1,539,860 in the Canadian dollar account.

4. Marketable securities

The Company holds 100 shares of Coeur D'Alene Mines with a market value of US\$88.

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. During the year, the Company received a partial refund of \$2,321. These deposits bear interest at approximately 4% per annum, receivable at the end of the fourth and fifth year of the lease term.

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

December 31, 2008 and 2007

6. Property and Equipment

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,905	\$ 23,205	\$ 14,700
Telephone equipment	1,376	964	412
Furniture and fixtures	29,068	18,838	10,230
Leasehold improvements	24,736	18,102	6,634
	\$ 93,085	\$ 61,109	\$ 31,976

	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
	\$ 90,362	\$ 48,371	\$ 41,991

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 has been expanded to a total of 484 claims, or 9,680 acres, and fee lands of 1,428 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.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

7. Mineral Property and Related Deferred Exploration Expenses (continued)

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"). 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\$255,000 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.

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.

During the year, the companies agreed to amend certain language in the lease and Klondex paid US\$20,000 to Vasquir with respect to legal fees incurred. The Company was notified that Vasquir was abandoning its lease agreement, with no further liabilities nor obligations on the part of either party.

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.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

8. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$204,975 (US\$171,300) representing the estimated 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, 2008 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 \$217,122 (US\$177,300). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost, adjusted for current exchange rates.

9. Share Capital

a) **Authorized:** unlimited common shares with no par value

b) **Issued**

	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
Increase for the year	474,125	1,231,562	75,980
Balance, December 31, 2007	22,989,673	27,009,163	2,233,225

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

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

	Shares	Amount	Contributed Surplus
Balance, December 31, 2007	22,989,673	27,009,163	2,233,225
Issued for cash			
Private placement @ \$1.15	1,520,000	1,748,000	-
Exercise of options	710,131	501,737	-
Fair value of options exercised	-	404,252	(404,252)
	2,230,131	2,653,989	(404,252)
Share issue costs			
Commission on private placement	-	(89,700)	-
Legal costs	-	(6,763)	-
	-	(96,463)	-
Stock based compensation	-	-	357,110
Increase (decrease) for the year	2,230,131	2,557,526	(47,142)
Balance, December 31, 2008	25,219,804	\$ 29,566,689	\$ 2,186,083

During the previous year ended December 31, 2007, 150,000 stock options with exercise prices of \$0.65 and \$1.05, were exercised for gross proceeds of \$109,500; 132,500 warrants with an exercise price of \$2.35 were exercised for gross proceeds of \$311,375; and 203,000 agents warrants with an exercise price of \$2.25 were exercised for gross proceeds of \$456,750.

On August 21, 2008, the Company announced that it completed a non-brokered private placement of 1,520,000 units (the "Units") at a price of \$1.15 per share for gross proceeds of \$1,748,000. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.60 for a period for 12 months after closing (August 21, 2009). The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission that applied to a portion of the financing attributable to authorized agents in the amount of \$89,700 was paid.

During the year ended December 31, 2008, 710,131 stock options with exercise prices of \$0.65 and \$1.05 were exercised for gross proceeds of \$501,737.

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

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

A summary of the Company's outstanding stock options as of December 31, 2008 and 2007 and the changes during the years then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2006	1,930,131	\$ 1.32
Options granted (note 10)	350,000	2.27
Options exercised	(150,000)	0.73
Outstanding and exercisable at December 31, 2007	2,130,131	1.52
Options granted (note 10)	1,205,000	2.30
Options exercised	(710,131)	0.71
Options expired	(50,000)	0.65
Outstanding at December 31, 2008	2,575,000	\$ 1.52

Number of Underlying Shares	Weighted average exercise price	Exercisable	Weighted average exercise price	Exercise Price	Expiry Date
375,000		375,000		\$ 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		200,000		\$ 2.25	May 7, 2012
105,000		26,250		\$ 2.30	January 21, 2013
1,100,000		-		\$ 0.86	September 17, 2013
2,575,000	\$1.52	1,396,250	\$2.79		

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

December 31, 2008 and 2007

9. Share Capital (continued)**d) Warrants outstanding**

A summary of the Company's outstanding share purchase warrants at December 31, 2008 and 2007 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price
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
Warrants granted, as per private placement	1,520,000	1.60
Outstanding and exercisable at December 31, 2008	1,520,000	\$ 1.60

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 15% 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 Venture Exchange policies), or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. According to the 2008 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.

On January 22, 2008 the Company granted directors, officers and consultants 105,000 incentive stock options at an exercise price of \$2.30 per share expiring on January 21, 2013. Options vest at 25% every six months with the first 25% vesting July 22, 2008.

On September 17, 2008, the Company granted directors, officers and consultants 1,100,000 incentive stock options at an exercise price of \$0.86 per share expiring on September 17, 2013. These optioned shares may be acquired as follows:

- (i) Up to 50% of the optioned shares may be acquired at any time after March 17, 2009 and prior to the expiry date;
- (ii) The balance of 50% of the optioned shares may be acquired at any time after September 17, 2009 and prior to the expiry date.

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

December 31, 2008 and 2007

10. Stock Based Compensation (continued)

During the year ended December 31, 2008, 1,205,000 options were granted (2007 – 350,000) with a weighted average fair value of \$0.62 per option (2007 - \$1.62 per option). The options have a maximum term of five years and vest over various periods of time. The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

Date of grant 2008	22-Jan-08	17-Sep-08	Total or Average
Number of options	105,000	1,100,000	1,205,000
Number expected to vest	78,750	1,100,000	1,178,750
Estimated life	5 years	5 years	5 years
Share price at date of grant	\$2.15	\$0.89	\$1.00
Option exercise price	\$2.30	\$0.86	\$0.99
Risk free interest rate	3.75%	3.25%	3.29%
Estimated volatility	80.12%	70.52%	71.36%
Option fair value	\$1.40	\$0.54	\$0.62
Compensation cost	\$73,500	\$598,000	\$745,000

Date of grant 2007	19-Jan-07	07-May-07	Total or Average
Number of options	150,000	200,000	350,000
Number expected to vest	-	100,000	100,000
Estimated life	5 years	5 years	5 years
Share price at date of grant	\$2.30	\$2.19	\$2.24
Option exercise price	\$2.30	\$2.25	\$2.27
Risk free interest rate	4.07%	4.17%	4.13%
Estimated volatility	93.22%	90.71%	91.79%
Option fair value	\$1.68	\$1.57	\$1.62
Compensation cost	\$252,490	\$312,880	\$565,370

11. Non Cash Transactions

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

December 31,	2008	2007
Operating activities		
Accounts payable related to property	\$ 937,892	\$ 444,543
Financing activities		
Contributed surplus allocated on exercise of options	\$ 404,252	\$ 93,300
Contributed surplus allocated on exercise of agents' unit warrants exercised	\$ -	286,230
Share capital allocated from contributed surplus	\$ (404,252)	\$ (379,530)
Asset retirement obligation recorded	\$ -	\$ 106,019
Investing activity		
Asset retirement obligation recorded as mineral property costs	\$ -	\$ (106,019)

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

December 31, 2008 and 2007

12. Income Taxes

At December 31, 2008, the Company has Canadian tax losses of approximately \$354,000 available for carry-forward. The Company has US tax losses of approximately \$1,660,000 available for carry-forward. If unused, the losses will expire as follows:

Expiry Date	Canada	United States
2028	\$ -	\$ 375,000
2027	-	398,000
2026	172,000	310,000
2025	-	265,000
2024	-	145,000
2023	-	43,000
2022	-	31,000
2021	-	37,000
2020	-	29,000
2019	-	27,000
2018	-	-
2015	182,000	-
	<u>\$ 354,000</u>	<u>\$ 1,660,000</u>

The Company also has available mineral resource related expenditure pools totaling approximately \$23,000,000 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:

	2008	2007
Net loss for the year	\$ (1,237,414)	\$ (1,074,561)
Statutory Canadian corporate tax rate	31.00%	34.12%
Anticipated tax expense (recovery)	(397,711)	(366,157)
Change in tax rates	15,539	10,166
Rate differential due to foreign operation	(14,113)	-
Items not deductible for tax purposes	357,309	433,441
Change in valuation allowance	38,976	(77,450)
Actual income tax recovery	\$ -	\$ -

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

December 31,	2008	2007
Property and equipment	\$ 1,048	\$ 2,096
Exploration deductions	510,989	451,288
Share issue costs	80,658	130,182
Marketable securities	830	-
Capital loss	1,218	1,359
Non-capital loss carry forwards	785,635	553,753
	<u>1,380,378</u>	<u>1,138,678</u>
Valuation allowance	(1,380,378)	(1,138,678)
Net future tax assets	\$ -	\$ -

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

December 31, 2008 and 2007

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, 2008 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 205,916
Marketable securities	\$ 88
Reclamation bonds	\$ 177,300
Overdraft (Brokerage account)	\$ 904,294
Accounts payable	\$ 770,814
Due to related parties	\$ 92,720

At December 31, 2008 US dollar amounts were converted at a rate of \$1.2246 Canadian dollars to \$1.00 US dollar.

b) Capital risk management

The Company includes cash and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company's properties are in the exploration stage and as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise the additional funds required.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

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

December 31, 2008 and 2007

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 parties:

- a) During the year ended December 31, 2008, the Company incurred consulting fees of \$49,606 (2007 - \$52,793) and mineral property services of \$61,000 (2007 - \$78,000) to an officer and to companies controlled by each of a director and an officer.
- b) During the year ended December 31, 2008, the Company incurred salary and benefit expenses of \$73,532 (2007 - \$70,101) and rent of \$13,793 (2007 - \$Nil) to the President.
- c) During the year ended December 31, 2008, the Company incurred management fees of \$38,382 (2007 - \$38,595) and rent of \$6,397 (2007 - \$6,380) to a director.
- d) During the year ended December 31, 2008, the Company incurred accounting fees of \$58,715 (2007 - \$64,715) to an officer.
- e) Amounts owing to directors and officers of \$147,555 (due from 2007 - \$21,562) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

15. Segmented Information

2008	Canada	United States	Total
Interest earned	\$ 51,725	\$ -	\$ 51,725
Expenses	(818,707)	(387,156)	(1,205,863)
Loss for the year	\$ (766,982)	\$ (387,156)	\$ (1,154,138)
Identifiable assets	\$ 1,669,404	\$ 21,761,333	\$ 23,430,737

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

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

16. Commitments

As at December 31, 2008, 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:

2009	\$ 16,042
<u>2010</u>	<u>\$ 2,005</u>
<u>Total</u>	<u>\$ 18,047</u>

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 are recognized as a reduction of rent expense over the term of the lease.

17. Subsequent events

On March 2, 2009, the Company granted 950,000 incentive stock options to directors, officers, and consultants at an exercise price of \$1.00 per share. The options are exercisable for a period of five years, ending March 2, 2014. The options shall be immediately exercisable, subject only to the regulatory 4-month hold from the date of grant (i.e. no vesting periods shall be imposed on the options).

The options have a fair value of \$355,890 and was estimated using the Black-Scholes option pricing model with the following weighted average:

	950,000 options
Dividend rate	0.00 %
Risk-free interest rate	2.50 %
Expected life	5 years
Expected annual volatility	84.44 %
Strike price	\$ 0.37
Spot price	\$ 1.00

On March 12, 2009, the Company announced that it had arranged a non-brokered private placement of up to 1,500,000 units (the "Units") at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.90 for a period for 12 months after closing. The warrants will be subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 20 consecutive trading days, at a price of \$1.30 or greater. A 5% commission will apply to the portion of the financing attributable to authorized agents. The private placement is subject to exchange acceptance.

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2008

Directors and Officers as at March 30, 2009:

Directors:

William J. Solloway
Brendan Donohoe
Robert Sibthorpe
John Pollock
Ronald Shorr

Officers:

President – William J. Solloway
Chief Financial Officer – Jorge Avelino
Secretary – Fred Baker

Contact Name:

Fred Baker
Telephone: (604) 638-3273
(604) 602-4935
Fax: (604) 602-4936

Toronto Stock Exchange Symbol:

KDX

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2008

1.1 Date of This Report

March 30, 2009

This MD&A includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

1.2 Overall Performance

Description of Business

Klondex Mines Ltd. (“Klondex” or the “Company”) was founded in 1974 and is listed on the Toronto Stock Exchange under the symbol '[KDX](#)'. Klondex Mines is engaged in acquiring, exploring and developing gold and silver properties in Nevada.

Klondex holds mineral interests in the prime area of northern Nevada's mining industry. The Company's principal property is the 100% owned Fire Creek Property. The Fire Creek Property comprises leasehold land and fee land along the Northern Nevada Rift in North Central Nevada. It is strategically located in the Crescent Valley area of the Battle Mountain gold belt between the past producing Mule Canyon Mine to the north and the world-class Pipeline and Cortez gold deposits to the south.

1.3 Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	December 31, <u>2008</u>	December 31, <u>2007</u>	December 31, <u>2006</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$1,154,138	\$1,252,259	\$1,470,080
(ii) Loss per share - basic	\$0.05	\$0.06	\$0.07
(iii) Loss per share - diluted	\$0.05	\$0.06	\$0.07
(c) Net loss			
(i) Total loss	\$1,154,138	\$1,252,259	\$1,470,080
(ii) Loss per share - basic	\$0.05	\$0.06	\$0.07
(iii) Loss per share - diluted	\$0.05	\$0.06	\$0.07
(d) Total assets	\$23,430,737	\$20,366,135	\$19,991,957
(e) Total long-term liabilities	4,113	7,388	10,663
(f) Cash dividends declared per-share	N/A	N/A	N/A

1.4 Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

NEVADA MINERAL PROPERTIES

Acquisition and Exploration expenditures:

Nevada Properties	December 31, 2008	December 31, 2007
Balance, beginning of the year	\$ 15,769,182	\$ 10,379,959
Acquisition of land	297,560	157,080
Advance - Drilling	(99,293)	99,293
Assays and core costs	549,046	435,797
Consulting - geological	363,745	321,067
Drilling	3,767,091	3,288,193
Environmental consulting & permitting	282,918	257,229
Field supplies and equipment	155,337	127,969
Geophysics	31,123	1,319
Lease payments, taxes and royalties	17,944	20,852
Legal	1,915	-
Maintenance fees	75,351	70,129
Mapping and sampling	520	61,055
Miscellaneous	57,026	37,450
Site reclamation	-	106,019
Site visits	13,299	40,347
Wells	-	365,424
Current expenditures for the year	5,513,582	5,389,223
Balance, end of year	\$ 21,282,764	\$ 15,769,182

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada

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. During the fiscal year 2004, the Company acquired four additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). During the fiscal year 2006, the Company acquired additional blocks of land, which totaled 130 acres for Cdn\$119,030 (US\$97,009). These acquisitions were necessary to ensure logistical access to the main mineralized zones and to acquire areas which represent the strike extensions of these zones. During the year ended December 31, 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490).

During the second quarter, the Company acquired an additional 400 acres for \$184,504 (US\$182,475). The Company includes the Woodtick and Corral Canyon claims in 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 1,428 acres.

Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

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 along the Mule Canyon-Fire Creek-Buckhorn volcanic trend. These claims provide access to the northern Fire Creek block from the powerline road. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

Exploration Results and Future Plans & Developments

Fire Creek Underground Mining Contractor Appointed:

Klondex appointed SMD (Small Mine Development L.L.C.) of Boise, Idaho as its Mining Contractor for the underground exploration and development at Fire Creek. The Company's permitting process is being directed by permitting consultants Enviroscientists Inc., of Reno, Nevada. Although most permits are expected to be issued in 2009, there is no assurance that the government bureau will have processed the required permits by that time. Klondex's applications include a permit to extract up to 120,000 tons of Fire Creek ore in a bulk sample for the purposes of metallurgical testing and determination of gold recovery rates. Klondex plans to target its bulk sampling effort at ore ranging from 1-2 ounces per ton, creating the potential to generate substantial cash flows.

1.4 Results of Operations (continued)

Exploration Results and Future Plans & Developments (continued)

Phase 7 Drilling: The Phase 7 program contemplated drilling 40-60 holes between mid-March and mid-December 2008.

On July 8, 2008, the Company received the results for six of the first seven holes, totaling 6,834 feet. Of special interest are intercepts for holes FC0807 (20 feet @ 0.361 oz/ton gold – 18 feet true width), which extends the New North vein system 100 meters and leaves the zone open to the north, and FC0806 (5 feet @ 0.629 oz/ton gold – 4.5 feet true width), which extends the Far North zone 50 meters to the south.

On October 14, 2008 the Company reported new high-grade intercepts and the extension of two vein zones. The Company has completed 17 drill holes, totaling 25,652 feet since the July 8th announcement.

On March 2, 2009, the Company announced the assays from the final 15 holes of its 2008 drill program. The holes continued the program of drilling untested geophysical anomalies and extending known resource zones. The results are presented in table below and the drill plan showing all 2008 drill holes is posted on Klondex's website www.klondexmines.com/s/News.asp.

Fire Creek Drill Results Update March 2009 (≥ 10 feet @ ≥ 0.03 oz/ton gold equivalent)										
Hole No.	From (feet)	To (feet)	Interval (feet)	True Width (feet)	Gold (oz/ton)	Silver (oz/ton)	True Width (m)	Gold (g/t)	Silver (g/t)	Target Area
FC0805B including	420.0	440.0	20.0	14.2	0.042	0.25	4.3	1.45	8.50	Main
	1235.0	1250.0	15.0	10.6	0.213	0.26	3.2	7.30	8.83	Main
	1235.0	1237.5	2.5	1.8	1.101	0.74	0.5	37.70	25.40	Main
	1275.0	1280.0	5.0	3.5	0.047	0.06	1.1	1.59	2.20	Main
	1302.5	1307.5	5.0	3.5	0.080	0.27	1.1	2.72	9.10	Main
	1330.0	1335.0	5.0	3.5	0.087	4.88	1.1	2.98	167.00	Main
FC0818 including	930.0	945.0	15.0	12.0	0.048	<0.015	3.7	1.65	<0.50	N. New North
	995.0	1000.0	5.0	4.0	0.073	<0.015	1.2	2.49	<0.50	N. New North
	1080.0	1095.0	15.0	12.0	0.052	<0.015	3.7	1.77	<0.50	N. New North
	1260.0	1270.0	10.0	9.0	0.038	0.07	2.7	1.30	2.40	N. New North
FC0823	No +0.03 oz/ton Gold Values									Northeast
FC0825	1170.0	1180.0	10.0	7.1	0.028	0.03	2.2	0.97	1.15	Northeast
FC0827 including	1490.0	1500.0	10.0	7.1	0.055	0.03	2.2	1.89	1.00	Main N. Ext.
	1545.0	1560.0	15.0	10.6	0.142	0.41	3.2	4.88	13.87	Main N. Ext.
FC0829*	900.0	915.0	15.0	12.0	0.140	0.05	3.7	4.81	1.77	North Main
FC0830 including	1130.0	1135.0	5.0	4.0	0.308	0.06	1.2	10.54	2.10	West Main
	1275.0	1280.0	5.0	4.0	0.064	0.02	1.2	2.21	0.60	West Main
	1550.0	1555.0	5.0	4.0	0.760	0.01	1.2	2.59	0.50	West Main
FC0831	1290.0	1300.0	10.0	7.1	0.074	1.80	2.2	2.53	61.70	Main N. Ext.
FC0832 including	910.0	945.0	35.0	28.0	0.042	0.12	8.5	1.43	4.04	N. New North
	915.0	920.0	5.0	4.0	0.101	<0.015	1.2	3.45	<0.50	N. New North

FC0833	1100.0	1105.0	5.0	4.0	0.171	0.08	1.2	5.87	2.60	N. New North
FC0834	No +0.03 oz/ton Gold Values									IP Anom. 10
FC0835	1040.0	1045.0	5.0	4.0	0.073	0.06	1.2	2.49	2.10	North Main
	1065.0	1075.0	10.0	8.0	0.098	0.11	2.4	3.35	3.70	North Main
including	1125.0	1150.0	25.0	20.0	0.100	0.11	6.1	3.43	3.84	North Main
	1125.0	1130.0	5.0	4.0	0.146	0.18	1.2	5.01	6.20	North Main
	1145.0	1150.0	5.0	4.0	0.288	0.19	1.2	9.87	6.50	North Main
FC0836	1310.0	1322.5	12.5	10.0	0.029	0.02	3.0	1.00	0.60	New North
FC0837	No +0.03 oz/ton Gold Values									IP Anom. 14

* Hole lost before reaching target depth.

These drill holes are in the process of being incorporated in an NI 43-101-compliant resource update for its 100%-owned Fire Creek high-grade gold property, expected by the end of Q1 2009.

Lander & Eureka Counties, Nevada

The Company has an option 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\$255,000 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 an 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.

Reef claims, Churchill County, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County. Anomalous gold and silver were previously detected along a siliceous reef which runs approximately a half mile in length. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time.

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 in Elko County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time. The claims are being held due to their strategic location.

Hot Springs Point, 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. They are in a basalt-andersite setting. The claims are in good standing and will be renewed on September 1, 2009.

1.4 Results of Operations (continued)

Hot Springs Point, Lander County, Nevada (continued)

On July 23, 2006, the Company negotiated the principal terms of a 10 year lease of the Hot Springs 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, a subsidiary of CMQ Resources Inc. in relation to a lease agreement for the Hot Springs Point property. Vasquir claimed that the Company repudiated the agreement and sought various remedies. Vasquir claimed that its damages included (but were not limited to) the withdrawal or postponement of \$10,125,000 (Cdn.) in financing.

During the second quarter, the companies agreed to amend certain language in the lease and Klondex paid US\$20,000 to Vasquir with respect to legal fees incurred. During the current quarter, the Company was notified that Vasquir was abandoning its lease agreement, with no further liabilities or obligations on the part of either party.

Discussion of Operations and Financial Condition

Results of Operations

Interest income for the year ended December 31, 2008 was \$51,725 compared to \$309,955 for the year ended December 31, 2007. The loss for the year ended December 31, 2008 was \$1,154,138 as compared with a loss of \$1,252,259 for the year ended December 31, 2007. The decrease in the loss for the current year is related to the following:

- Stock-based compensation decreased by \$98,400 during the year ended December 31, 2008 as compared to the year ended December 31, 2007.
- Travel, conferences, and meetings decreased by \$147,111 during the year ended December 31, 2008 as compared to the year ended December 31, 2007. Due to the current market conditions, the Company reduced all travel costs.
- Legal, audit and accounting decreased by \$72,704 during the year ended December 31, 2008 as compared to the year ended December 31, 2007. The previous year end was the same year the Company got listed in the Toronto Stock Exchange. The listing application was subject to additional legal and accounting fees.
- Regulatory fees decreased by \$55,857 during the year ended December 31, 2008 as compared to the year ended December 31, 2007. In the previous year end, the Company incurred an expense of \$75,858 for listing on the Toronto Stock Exchange.

A breakdown of the “Consulting Fees” expense is as follows:

Corporate & administration fees	\$	15,412
Shareholders communication (Canada)		49,606
Shareholders communication (USA)		63,970
Total	\$	128,988

1.4 Results of Operations (continued)

A breakdown of the “Travel, accommodation and meetings” expense is as follows:

Travel	\$	68,561
Communication, Conference and meetings		82,074
Meals & entertainment		20,659
Press releases and printed materials		4,812
Total	\$	176,106

Discussion of Operations and Financial Condition

Investor Relations Activities

During the period, the Company responded to investor inquiries and conducted shareholder and investor mailouts. The responsibility for responding directly to all investor inquiries and for conducting shareholder and investor mailouts is handled by the Corporate Secretary in Vancouver and by the 2 directors in New York.

In January 2007, the Company entered into a one year agreement with Jaffoni & Collins (“JCI”) to provide investor relations services for the Company (automatically renews for successive one year periods). Founded in 1994, JCI (www.jcir.com) is a full-service investor relations agency exclusively focused on creating and executing communication programs for public companies. JCI will be responsible for developing and implementing, and advising the Company with respect to investor relations and financial policies and opportunities. JCI is based in New York, New York and works closely with institutional investors, sell-side analysts, brokers, and private investors and the media in Canada and the United States. JCI and its principals are at arm’s length to the Company.

JCI’s monthly fee is US\$5,000 plus expenses related to dissemination of information. JCI currently has stock options of 150,000 at \$2.30 per share and 25,000 at \$0.86 per share.

Financings, Principal Purposes & Milestones

On August 21, 2008, the Company announced that it completed a non-brokered private placement of 1,520,000 units (the “Units”) at a price of \$1.15 per share for gross proceeds of \$1,748,000. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.60 for a period for 12 months after closing. The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission that applied to a portion of the financing attributable to authorized agents in the amount of \$89,700 was paid.

On March 12, 2009, the Company announced that it had arranged a non-brokered private placement of up to 1,500,000 units (the “Units”) at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.90 for a period for 12 months after closing. The warrants will be subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 20 consecutive trading days, at a price of \$1.30 or greater. A 5% commission will apply to a portion of the financing attributable to authorized agents. The private placement is subject to exchange acceptance.

For a discussion on “Principal Purposes & Milestones”, please refer to the detailed discussion on the Fire Creek Property.

1.5 **Summary of Quarterly Results**

The following is a summary of the Company’s financial results for the eight most recently completed quarters:

	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Dec-08	Sep-08	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07	Mar-07
Total loss	(480,823)	(199,354)	(269,448)	(204,513)	(417,092)	(236,596)	(248,058)	(350,513)
Per share	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)

Discussion

For a detailed discussion on the year ended December 31, 2008, please refer to Section 1.4 - Results of Operations.

1.6 **Liquidity**

The Company has no revenue generating projects at this time. The Company’s historical capital needs have been met by equity subscriptions. As at December 31, 2008, the Company had a working capital deficit of \$563,415 (December 31, 2007 - \$3,584,860). The Company currently has insufficient working capital for general and administration expenses until December 2009 and will require additional funding (See Section on Financings, Principal Purpose and Milestones – March 12, 2009 Private Placement Announcement). In addition, the Company will require capital to meet the exploration program for the Fire Creek property. However, this is a forward-looking statement as it involves known and unknown risks, uncertainties and other factors, which could affect the actual results, performance or achievements of the Company and impact on the adequacy of working capital required for the year 2009 expressed by such forward-looking statement. Also, the ability of the Company to continue with recommended exploration programs on its current properties, and/or to successfully acquire and develop additional properties in the resource sector is conditional on its ability to secure financing when required. The Company proposes to meet any additional financing requirements through the exercise of outstanding stock options and warrants, or arranging other equity financing, and/or finalizing a joint venture agreement with a partner(s) who will be able to assume the costs of recommended exploration programs. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions or finding a joint venture partner will be possible at the times required or desired by the Company.

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, 2008 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 205,916
Marketable securities	\$ 88
Reclamation bonds	\$ 177,300
Overdraft (Brokerage account)	\$ 904,294
Accounts payable	\$ 770,814
Due from related parties	\$ 92,720

1.6 **Liquidity** (continued)

At December 31, 2008 US dollar amounts were converted at a rate of \$1.2246 Canadian dollars to \$1.00 US dollar.

Capital risk management

The Company includes cash and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company's properties are in the exploration state and as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise the additional funds required.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

1.7 **Capital Resources**

The only capital resources of the Company are its mineral properties with a historical cost of \$21,282,764 and its property and equipment with a net book value of \$31,976.

1.8 **Off Balance Sheet Arrangements**

There are no off-balance sheet arrangements to which the Company is committed.

1.9 **Transactions with Related Parties**

The Financial Statements attached hereto provide disclosure on related party transactions for the year ended December 31, 2008, with breakdown as follows:

Expense	31-Dec-08	31-Dec-07
Management salaries & fees	\$ 111,914	\$ 108,696
Consulting fees:		
- Shareholders communication	49,606	52,793
Accounting fees	58,715	64,175
Rent	20,190	6,380
Deferred geological fees	61,000	78,000
Total for the year	\$ 301,425	\$ 310,044

1.9 Transactions with Related Parties (continued)

Amounts due to a director of \$147,555 (2007, due from - \$21,562) are non-interest bearing, unsecured, and payable upon demand.

1.10 Fourth Quarter – 2008:

The fourth quarter expenditures do not differ significantly from other quarters and were in the normal course of the business.

1.11 Proposed Transactions

None.

1.12 Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Please refer to Note 2 of the Financial Statements.

1.13 Changes in Accounting Policies

Please refer to Note 2 of the Financial Statements.

1.14 Financial and Other Instruments

The carrying value of cash and cash equivalents, marketable securities, accounts receivable, brokerage account overdraft, accounts payable and due from (to) related parties approximate their fair values due to the short maturity of those instruments.

1.15 Other

1.15.1 Share Capital

Disclosure of Outstanding Share Capital (March 30, 2009)

	Number	Book Value	Contributed Surplus
Common Shares	26,719,804	\$30,466,689	\$2,186,083

1.15.1 Share Capital (continued)

Summary of incentive stock options: (March 30, 2009)

Number of Shares	Expiry Date	Exercise Price
375,000	June 10, 2010	\$1.05
645,000	July 17, 2011	\$2.35
150,000	January 19, 2012	\$2.30
200,000	May 7, 2012	\$2.25
105,000	January 21, 2013	\$2.30
1,100,000	September 17, 2013	\$0.86
950,000	March 2, 2014	\$1.00
3,525,000		

Summary of warrants outstanding: (March 30, 2009)

Number of Shares	Expiry Date	Exercise Price
1,520,000	August 20, 2009	\$1.60
1,500,000	March 26, 2010	\$0.90
3,020,000		

1.15.2 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures for the year ended December 31, 2008. The Board of Directors has adopted the recommendations made by management in the previous quarter and has implemented the procedures to ensure cohesive administration of financial and disclosure matters. Management and the Board have found those disclosure controls and procedures to be adequate for the above purposes.

Internal Controls over Financial Reporting

The Chief Executive Officer, the Chief Financial Officer and the Audit Committee of the Company are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles. The Chief Executive Officer, the Chief Financial Officer and the Audit Committee have designed and implemented a system of internal controls over financial reporting which they believe is effective for the Company. During the review of the design of the Company's control system over financial reporting it was noted that due to the limited number of staff, there is an inherent weakness in the system of internal controls due to our inability to achieve appropriate segregation of duties. The limited number of staff may also result in identifying weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources, and a lack of controls governing our computer systems and applications within the Company. While management of the Company has put in place certain procedures to mitigate the risk of material misstatement in the Company's financial reporting, it is not possible to provide absolute assurance that this risk can be eliminated.

1.15.4 Subsequent Event

On March 2, 2009, the Company granted 950,000 incentive stock options to directors, officers, and consultants at an exercise price of \$1.00 per share. The options are exercisable for a period of five years, ending March 2, 2014. The options shall be immediately exercisable, subject only to the regulatory 4-month hold from the date of grant (i.e. no vesting periods shall be imposed on the options).

On March 12, 2009, the Company announced that it had arranged a non-brokered private placement of up to 1,500,000 units (the "Units") at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.90 for a period for 12 months after closing. The warrants will be subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 20 consecutive trading days, at a price of \$1.30 or greater. A 5% commission will apply to a portion of the financing attributable to authorized agents. The private placement is subject to exchange acceptance.

1.15.5 Additional information

Additional information relating to the Company is on SEDAR at www.sedar.com.