

**Klondex Mines Ltd.**

**Interim Consolidated Financial Statements**

**June 30, 2008**

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**Klondex Mines Ltd.****Interim Consolidated Financial Statements**

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**June 30, 2008**

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**Klondex Mines Ltd.****Interim Consolidated Balance Sheets**

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	June 30, 2008	December 31, 2007
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (note 3)	\$ 1,457,680	\$ 4,239,422
Marketable securities (note 4)	480	466
Prepaid expenses	38,102	24,553
Accounts receivable	26,722	47,609
Due from related parties (note 13)	-	21,562
	<b>1,522,984</b>	<b>4,333,612</b>
<b>Rent deposit</b> (note 5)	<b>16,375</b>	<b>16,375</b>
<b>Property and equipment</b> (note 6)	<b>38,268</b>	<b>41,991</b>
<b>Mineral properties and related deferred expenses</b> (note 7)	<b>18,620,113</b>	<b>15,769,182</b>
<b>Reclamation bonds</b> (note 8)	<b>204,975</b>	<b>204,975</b>
	<b>\$ 20,402,715</b>	<b>\$ 20,366,135</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 874,432	\$ 543,777
Due to related parties (note 13)	22,353	-
Asset retirement obligation (note 8)	204,975	204,975
	<b>1,101,760</b>	<b>748,752</b>
<b>Deferred lease inducement</b> (note 15)	<b>5,751</b>	<b>7,388</b>
	<b>1,107,511</b>	<b>756,140</b>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 9)	<b>27,009,163</b>	<b>27,009,163</b>
<b>Contributed surplus</b> (notes 9 and 10)	<b>2,392,395</b>	<b>2,233,225</b>
<b>Deficit</b>	<b>(10,106,354)</b>	<b>(9,632,393)</b>
	<b>19,295,204</b>	<b>19,609,995</b>
	<b>\$ 20,402,715</b>	<b>\$ 20,366,135</b>

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**Subsequent event (note 16)****Approved by the Directors:****William J. Solloway (sgd.)** Director**Brendan Donohoe (sgd.)** Director

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

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	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Administrative Expenses</b>				
Amortization	\$ 2,877	\$ 1,646	\$ 5,755	\$ 4,640
Consulting fees	32,460	38,832	64,631	83,141
Foreign exchange (gain)	7,975	60,428	(41,186)	74,992
Legal, audit and accounting	37,802	62,136	61,534	94,411
Management fees and salaries	27,478	31,361	52,574	66,763
Office and miscellaneous	19,227	27,147	37,631	42,353
Other item (note 7d)	19,934	-	19,934	-
Stock-based compensation	68,568	26,070	159,170	152,470
Telephone	5,817	5,045	8,768	8,945
Transfer agent and regulatory fees	4,348	6,914	28,314	97,101
Travel, conferences and meetings	56,634	74,336	130,620	146,195
Interest earned	(13,672)	(85,857)	(53,784)	(172,440)
	<b>269,448</b>	<b>248,058</b>	<b>473,961</b>	<b>598,571</b>
<b>Comprehensive loss and loss for the period</b>	<b>(269,448)</b>	<b>(248,058)</b>	<b>(473,961)</b>	<b>(598,571)</b>
<b>Deficit, beginning of period</b>	<b>(9,836,906)</b>	<b>(8,730,647)</b>	<b>(9,632,393)</b>	<b>(8,421,334)</b>
<b>Fair Value Adjustment on Marketable Securities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,200</b>
<b>Deficit, end of period</b>	<b>\$ (10,106,354)</b>	<b>\$ (8,978,705)</b>	<b>\$ (10,106,354)</b>	<b>\$ (8,978,705)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>	<b>22,989,673</b>	<b>22,654,173</b>	<b>22,989,673</b>	<b>22,643,934</b>

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

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<b>Nevada Properties</b>	<b>Six months ended June 30, 2008</b>	<b>Year Ended December 31, 2007</b>
Balance, beginning of period	\$ 15,769,182	\$ 10,379,959
Acquisition of land	297,560	157,080
Advance – Drilling	256,990	99,293
Assays and core costs	268,019	435,797
Consulting	162,307	321,067
Drilling	1,609,859	3,288,193
Environmental consulting and permitting	156,869	257,229
Field supplies and equipment	79,632	127,969
Geophysics	10	1,319
Lease payments, taxes and royalties	-	20,852
Maintenance fees	(7,760)	70,129
Mapping and sampling	520	61,055
Miscellaneous	21,966	37,450
Site reclamation	-	106,019
Site visits	4,959	40,347
Wells	-	365,424
Current period expenditures	2,850,931	5,389,223
<b>Balance, end of period</b>	<b>\$ 18,620,113</b>	<b>\$ 15,769,182</b>

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

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	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss for the period	\$ (269,448)	\$ (248,058)	\$ (473,961)	\$ (598,571)
Items not involving cash				
Amortization	2,877	1,646	5,755	4,640
Deferred lease inducement realized	(818)	(818)	(1,637)	(1,637)
Stock based compensation	68,568	26,070	159,170	152,470
Foreign exchange - unrealized	6	(5)	(14)	-
	(198,815)	(221,165)	(310,687)	(443,098)
<b>Change in non-cash working capital</b>				
Accounts receivable	(5,286)	31,335	20,887	29,522
Prepaid expenses	(18,275)	10,051	(13,549)	(26,900)
Accounts payable	(38,368)	(14,765)	(135,326)	(78,393)
	(260,744)	(194,544)	(438,675)	(518,869)
<b>Financing activities</b>				
Issue of share capital	-	(25,594)	-	83,906
Due to (from) related parties	41,235	(143)	43,915	(445)
	41,235	(25,737)	43,915	83,461
<b>Investing activities</b>				
Reclamation bond	-	-	-	(92,470)
Marketable securities	-	-	-	500,101
Purchase of property & equipment	-	(3,542)	(2,032)	(7,602)
Accounts payable related to mineral properties	591,614	354,279	465,981	142,178
Deferred exploration	(2,141,385)	(1,473,371)	(2,850,931)	(1,738,594)
	(1,549,771)	(1,122,634)	(2,386,982)	(1,196,387)
<b>Net increase (decrease) in cash and equivalents</b>	(1,769,280)	(1,342,915)	(2,781,742)	(1,631,795)
<b>Cash and equivalents, beginning of period</b>	3,226,960	8,631,440	4,239,422	8,920,320
<b>Cash and equivalents, end of period</b>	\$ 1,457,680	\$ 7,288,525	\$ 1,457,680	\$ 7,288,525

**Supplemental Cash Flow Information (note 11)**

The company had the following cash transactions:

Interest received	\$ 13,672	\$ 85,857	\$ 53,784	\$ 172,440
Income taxes paid	-	-	-	-

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**June 30, 2008**

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**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. Financial Statement Presentation**

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the company's annual audited financial statements for the year ended December 31, 2007 for additional information.

**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 12c was added to comply with this section on adoption on January 1, 2008.

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# Klondex Mines Ltd.

## Notes to the Interim Consolidated Financial Statements

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### 2. Financial Statement Presentation

#### c) 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 enhances standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 carries forward from 3861 the 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 was adopted by the Company on January 1, 2008. The effect on the Company's financial statements was not material.

#### d) 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

	June 30, 2008	December 31, 2007
Cash on deposit	\$ 240,570	\$ 401,093
Treasury bills (3.45% interest)	1,217,110	3,838,329
	<b>\$ 1,457,680</b>	<b>\$ 4,239,422</b>

### 4. Marketable securities

The Company holds 100 shares of Coeur D'Alene Mines with a book value of US\$475 and a market value of US\$480.

### 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.

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

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**6. Property and Equipment**

	<b>June 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Computer equipment	\$ 37,229	\$ 19,211	\$ 18,018
Telephone equipment	1,376	904	472
Furniture and fixtures	29,068	17,582	11,486
Leasehold improvements	24,736	16,444	8,292
	<b>\$ 92,409</b>	<b>\$ 54,141</b>	<b>\$ 38,268</b>

  

	<b>December 31, 2007</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
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
	<b>\$ 90,362</b>	<b>\$ 48,371</b>	<b>\$ 41,991</b>

**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). During fiscal 2006, an additional 100 acres were acquired for \$53,344 (US\$43,415). During fiscal 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490).

During this current 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.

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**7. Mineral Property and Related Deferred Exploration Expenses (continued)****a) Fire Creek Gold Properties, Lander County, Nevada, U.S.A. (continued)****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.

**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 six months ended June 30, 2008, the companies have agreed to amend certain language in the lease, which is still being negotiated. Additionally, Klondex paid US\$20,000 to Vasquir with respect to legal fees incurred.

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

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**June 30, 2008**

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**7. Mineral Property and Related Deferred Exploration Expenses (continued)****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 June 30, 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 \$204,975 (US\$177,300). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost.

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

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**June 30, 2008**

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**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
Total increase (decrease) for the year	474,125	1,231,562	75,980
<b>Balance, December 31, 2007</b>	<b>22,989,673</b>	<b>27,009,163</b>	<b>2,233,225</b>
<b>Stock based compensation</b>	<b>-</b>	<b>-</b>	<b>159,170</b>
<b>Total increase (decrease) for the period</b>	<b>-</b>	<b>-</b>	<b>159,170</b>
<b>Balance, June 30, 2008</b>	<b>22,989,673</b>	<b>\$ 27,009,163</b>	<b>\$ 2,392,395</b>

**c) Options outstanding**

A summary of the Company's outstanding stock options as of June 30, 2008 and the changes during the period then ended is presented below:

	Number of options	Weighted average exercise price
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 and exercisable at December 31, 2007	2,130,131	1.52
Options granted (note 10)	105,000	2.30
<b>Outstanding at June 30, 2008</b>	<b>2,235,131</b>	<b>\$ 1.56</b>

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

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**June 30, 2008**

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

At June 30, 2008, there were 2,235,131 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		200,000		\$ 2.25	May 7, 2012
105,000		43,750		\$ 2.30	January 21, 2013
<b>2,235,131</b>	<b>\$1.56</b>	<b>2,173,881</b>	<b>\$1.54</b>		

**d) Warrants outstanding**

A summary of the Company's outstanding share purchase warrants at June 30, 2008 and the changes during the period 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  
and June 30, 2008**

**Nil** \$ Nil

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

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**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 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 period ended June 30, 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.

The fair value of the incentive stock options granted, \$1.40, was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2008		2007	
	105,000 options	150,000 options	200,000 options	
Dividend rate	0.00 %	0.00 %	0.00 %	
Risk-free interest rate	3.75 %	4.07 %	4.17 %	
Expected life	5 years	5 years	5 years	
Expected annual volatility	80.12 %	93.22 %	90.71 %	
Strike price	\$ 2.30	\$ 2.30	\$ 2.25	
Spot price	\$ 2.15	\$ 1.88	\$ 1.83	

As at June 30, 2008, the total compensation expense for the vested portions expensed in the statement of operations and credited to contributed surplus was \$159,170 (2007 - \$152,470).

**11. Non Cash Transactions**

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

June 30,	2008		2007	
<b>Financing activities</b>				
Contributed surplus allocated on grant of options	\$	-	\$	93,300
Asset retirement obligation recorded	\$	-	\$	92,470
<b>Investing activity</b>				
Asset retirement obligation recorded as mineral property costs	\$	-	\$	(92,470)

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# Klondex Mines Ltd.

## Notes to the Interim Consolidated Financial Statements

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### 12. 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 June 30, 2008 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 194,594
Marketable securities	\$ 475
Reclamation bonds	\$ 177,300
Accounts payable	\$ 832,300
Due to related parties	\$ 12,196

At June 30, 2008 US dollar amounts were converted at a rate of \$1.01112 Canadian dollars to \$1.00 US dollar.

#### b) Credit risk

At June 30, 2008 the Company held treasury bills and cash of \$1,260,874 (December 31, 2007 - \$3,998,517) 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.

#### c) Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to shareholders largely through equity sales. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus and deficit.

### 13. 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 six months ended June 30, 2008, the Company paid consulting fees of \$24,898 (2007 - \$27,878) and mineral property services of \$77,611 (2007 - \$64,711) to an officer and to companies controlled by each of a director and an officer.
- b) During the six months ended June 30, 2008, the Company incurred salary & benefit expenses of \$34,608 (2007 - \$44,234) to the President.
- c) During the six months ended June 30, 2008, the Company incurred management fees of \$17,966 (2007 - \$19,498) and rent of \$2,995 (2007 - \$3,250) to a director.
- d) During the six months ended June 30, 2008, the Company incurred accounting fees of \$31,760 (2007 - \$31,846) to an officer.
- e) Amounts owing to directors and officers of \$22,353 (due from 2007 - \$13,606) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

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

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**June 30, 2008**

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**14. Segmented Information**

<b>June 30, 2008</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Interest earned	\$ 53,784	\$ -	\$ 53,784
Expenses	(247,017)	(280,728)	(527,745)
Loss for the period	\$ (193,233)	\$ (280,728)	\$ (473,961)
Identifiable assets	\$ 1,370,202	\$ 19,032,513	\$ 20,402,715

  

<b>June 30, 2007</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Interest earned	\$ 172,440	\$ -	\$ 172,440
Expenses	(467,927)	(303,084)	(771,011)
Loss for the period	\$ (295,487)	\$ (303,084)	\$ (598,571)
Identifiable assets	\$ 7,076,337	\$ 12,749,243	\$ 19,825,580

**15. Commitments**

As at June 30, 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:

2008	\$ 12,032
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.

**16. Subsequent Event**

On August 1, 2008, 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 \$1.15 per share for gross proceeds of \$1,725,000. 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 \$1.60 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 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission will apply to a portion of the financing attributable to authorized agents. On August 7, 2008, the Company received TSX approval.

# **KLONDEX MINES LTD.**

## **MANAGEMENT DISCUSSION & ANALYSIS**

**For the Six Months Ended June 30, 2008**

### **Directors and Officers as at August 14, 2008:**

#### **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 Six Months Ended June 30, 2008

### 1.1 Date of This Report

August 14, 2008

*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 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>2007</u>	December 31, <u>2006</u>	December 31, <u>2005</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$1,252,259	\$1,470,080	\$1,437,133
(ii) Loss per share - basic	\$0.06	\$0.07	\$0.09
(iii) Loss per share - diluted	\$0.06	\$0.07	\$0.09
(c) Net loss			
(i) Total loss	\$1,252,259	\$1,470,080	\$1,437,133
(ii) Loss per share - basic	\$0.06	\$0.07	\$0.09
(iii) Loss per share - diluted	\$0.06	\$0.07	\$0.09
(d) Total assets	\$20,366,135	\$19,991,957	\$9,270,560
(e) Total long-term liabilities	7,388	10,663	13,938
(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	June 30, 2008	December 31, 2007
<b>Balance, beginning of the period</b>	<b>\$ 15,769,182</b>	<b>\$ 10,379,959</b>
Acquisition of land	297,560	157,080
Advance - Drilling	256,990	99,293
Assays and core costs	268,019	435,797
Consulting - geological	162,307	321,067
Drilling	1,609,859	3,288,193
Environmental consulting & permitting	156,869	257,229
Field supplies and equipment	79,632	127,969
Geophysics	10	1,319
Lease payments, taxes and royalties	-	20,852
Maintenance fees	(7,760)	70,129
Mapping and sampling	520	61,055
Miscellaneous	21,966	37,450
Site reclamation	-	106,019
Site visits	4,959	40,347
Wells	-	365,424
<b>Current year expenditures</b>	<b>2,850,931</b>	<b>5,389,223</b>
<b>Balance, end of period</b>	<b>\$ 18,620,113</b>	<b>\$ 15,769,182</b>

## 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 bring the total acreage to 5,185 acres. 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 this current 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, 2008. 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, 2008. 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 is pleased to announce that it has 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, being directed by permitting consultants Enviroscientists Inc., of Reno, Nevada, is proceeding well, with all permits currently expected to be on track for issuance in the fall of 2008. 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.

On January 17, 2008, the Company announced additional high-grade gold and silver intercepts from recent core drilling under its Phase 6 drilling program.

## 1.4 Results of Operations (continued)

### Fire Creek Gold Property (continued)

The high-grade intercept from drill hole FC0748 of 1.95 oz/ton gold over 5 feet, (67.2 grams/tonne gold over 1.52 meters) represents a new discovery, the “Northeast Zone,” on the Fire Creek property and is located some 600 meters east of the Main Zone mineralization. The mineralization was found with the final hole of the Phase 6 campaign while drilling geophysical (induced polarization – “IP”) targets in this area. The intercept validates the exploration technique of drilling IP targets to locate sulfide-mineralized structures at Fire Creek. Follow up on this discovery with additional drilling is a priority when Phase 7 drilling began in April of this year.

FC0747 is the southernmost hole that has been drilled to date on the Main Zone at Fire Creek and returned 1.23 oz/ton gold and 15.7 oz/ton silver over 8 feet (42.3 grams per tonne gold and 517.9 gpt silver over 2.44 meters) and represents a 50 meter step out and extension of the Main Zone to the south. The true width of the discovery intercept on hole FC0748 is unknown while the true width of the intercept on hole FC0747 is estimated at 70% of the reported width. A plan map setting out drill hole locations is available on the Company’s website at <http://www.klondexmines.com/s/News.asp>

### **Indicated Gold Resource at Fire Creek prior to 2007’s Phase 6 Drilling Program:**

At the end of Phase 5 drilling the Indicated Mineral Resource at Fire Creek was estimated in the NI 43-101 compliant report dated September 2006 to be:

<b>Main Zone;</b>	912,366 tonnes grading	27.3 gpt	(801,681 oz gold)
<b>Far North Zone:</b>	724,188 tonnes grading	10.48 gpt	(244,047 oz gold)
<b>Total:</b>	<b>1,636,554 tonnes grading</b>	<b>19.88 gpt</b>	<b>(1,045,728 oz gold)</b>

Phase 6 drilling, which concluded in mid December, consisted of 42 holes totaling 60,517 feet of reverse circulation and NQ core drilling and effectively doubled the strike length of the Main Zone, although infill drilling will be required to confirm the continuity of the zone in this direction.

2007’s phase 6 drilling tested IP targets generated by a 2006 geophysical survey that resulted in the discovery of two new mineralized zones, the New North Zone (discovery hole FC0632: 7.5 gpt/3.1m) and the Northeast Zone (discovery hole FC0748: 62.7 gpt/1.52m). These discoveries will be followed up in Phase 7 and several other IP targets will be tested. Phase 6 drilling also tested the Main Zone, extending it to the south some 200 meters with drill holes:

FC0701 (25.3gpt/1.52m)  
FC0734 (5.2gpt/6.1m)  
FC0735 (34.3 gpt/1.6m)  
FC0741 (3.8 gpt/9.14m)  
FC0742 (15.4 gpt/5.5m)  
FC0747 (42.3gpt/2.44m)

Drill hole FC0724 (18.0 gpt/9.1m) detected the Main Zone some 300 meters along strike to the north of the boundary used in the resource calculation. Nine holes from Phase 6 were drilled to investigate “gaps” in the Main Zone, which had not been drill-tested in previous campaigns and accordingly were excluded from the resource estimate. The drill intercepts from these holes generally met or exceeded expectations within the context of previous drilling. The Company has not yet received all of its final assays from its Phase 6 drilling program.

## 1.4 Results of Operations (continued)

### Fire Creek Gold Property (continued)

Phase 6 drilling effectively doubled the strike length of the Main Zone although infill drilling will be required to confirm the continuity of the zone in this direction. Nine holes from Phase 6 were drilled to investigate “gaps” in the Main Zone that had not been drill-tested in previous campaigns and accordingly were excluded from the 2006 resource estimate. The drill intercepts from these holes generally met or exceeded expectations within the context of previous drilling.

On March 19, 2008, the Company announced additional high-grade intercept from the conclusion of drilling under its 2007 Phase 6 drilling program. The high-grade intercept from drill hole FC0746 was from 740 feet (225.6 m) to 765 feet (233 m) and assayed 0.37 oz/ton (12.8 g/t) gold and 0.37 oz/ton (12.7 g/t) silver over 25 feet (7.6 m) including 1.48 oz/ton (50.7 g/t) gold over 5 feet (1.5 meters). The hole was drilled to test the up dip extension of previously reported hole FC0747 on the southernmost section drilled to date on Fire Creek’s Main Zone. As previously reported, FC0747 returned 1.22 oz/ton (41.8 g/t) gold and 21.0 oz/ton (719 g/t) silver over 8 feet (2.4 m). True width of the FC0746 intercept is approximately 19 feet (5.8 m), and true width of the intercept on hole FC0747 is estimated at 70% of the reported width.

Results from the Phase 6 drilling program are now complete and the 2008 Phase 7 drilling was initiated with one core and one RC rig. Phase 7 will consist of 40 to 60 additional core holes targeting expansion of open-ended vein zones identified in 2007. Open-ended vein zones include the north and south ends of the Main zone, the New North zone, and the Northeast zone, a new discovery made late last year. The Company will continue to maintain an aggressive drilling program in 2008.

Phase 7 Drilling: Klondex is operating one core rig and is in the process of adding two additional core rigs for its Phase 7 surface exploration project at Fire Creek. Phase 7 drilling has been underway since mid-March. The Phase 7 program contemplates 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.

## 1.4 Results of Operations (continued)

### Fire Creek Gold Property (continued)

June 2008 Drill Results Fire Creek ( $\geq 10$ feet @ $\geq 0.03$ oz/ton gold)										
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
FC0801	260	280	20	18.0	0.039	0.01	5.5	1.35	0.3	IP Anomaly
	450	470	20	18.0	0.035	0.01	5.5	1.19	0.3	IP Anomaly
FC0802	755	825	70	49.5	0.053	0.38	15.1	1.81	12.9	South Main
	Including 805	810	5	3.5	0.270	0.72	1.1	9.24	24.7	South Main
FC0802	960	1035	75	53.0	0.059	0.25	16.2	2.03	8.4	South Main
	Including 1005	1020	15	10.6	0.132	0.34	3.2	4.53	11.8	South Main
FC0803	390	410	20	12.0	0.050	0.01	3.7	1.73	0.2	South Main
	685	815	130	78.0	0.080	0.19	23.8	2.73	6.4	South Main
Including	810	815	5	3.0	0.232	0.24	0.9	7.94	8.2	South Main
FC0804	550	575	25	17.7	0.031	0.02	5.4	1.06	0.7	South Main
	755	800	45	31.8	0.086	0.39	9.7	2.93	13.4	South Main
Including	785	790	5	3.5	0.218	1.03	1.1	7.47	35.2	South Main
FC0805	Pending									Main
FC0806	690	745	55	49.5	0.120	0.15	15.1	4.11	5.0	S. Far North
	Including 735	740	5	4.5	0.629	0.68	1.4	21.55	23.1	S. Far North
FC0806	977.5	1077.5	100	90.0	0.113	0.05	27.4	3.88	1.7	S. Far North
	Including 1005	1065	60	54.0	0.147	0.06	16.5	5.03	2.0	S. Far North
FC0807	1170	1200	30	27.0	0.264	0.11	8.2	9.03	3.7	N. New North
	Including 1170	1190	20	18.0	0.361	0.12	5.5	12.38	4.0	N. New North

FC0801, which tested IP anomaly “0” located west of Main, intersected a major fault zone with weak gold values.

FC0802, FC0803 and FC0804 are fill-in holes within the south Main extension discovered last season. All three holes intersected veins ranging from 0.218 to 0.270 oz/ton gold (see table above); FC0802 and FC0803 had thick intercepts (53 to 78 feet true width) of quartz-opal-calcite stockwork mineralization (“stockwork” is a network of “veinlets” in the host rock). Opal is normally present only above high-grade mineralization at Fire Creek, thus deeper drilling is planned beneath the stockwork zone.

FC0806, which extended the Far North vein zone 50 meters to the south, intersected 4.5 feet true width of high-grade gold/silver mineralization, listed above, within a broad fault zone (49.5 feet true width) averaging 0.120 oz/ton gold. It also intersected a deeper zone, which contains 54 feet true width averaging 0.147 oz/ton gold.

FC0807, which extended the New North zone 100 meters to the north, contained a high-grade gold zone, listed above, within the core of a broader zone 27 feet in true width that averaged 0.264 oz/ton gold. Additional drilling is planned to extend the New North zone further north. An updated drill hole location map is available on the company website [www.klondexmines.com](http://www.klondexmines.com).

## 1.4 Results of Operations (continued)

### Fire Creek Gold Property (continued)

#### **Underground Permitting and Bulk Sampling Update:**

During the third quarter of 2008, Klondex anticipates receiving the permits necessary to commence work on an underground program which will involve the driving of a 4,715 feet long decline to access mineralization underground. Once completed, the decline will enable underground in-fill drilling of the resource as well as bulk sampling for metallurgical testing of up to 120,000 tons of material over a three to five year period. Klondex filed its permit applications in March 2007 and revised applications in April 2008. Klondex plans to target its bulk sampling effort within vein mineralization averaging 1-2 oz/ton gold, creating the potential to generate substantial cash flows to fund further development of the resource.

### **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\$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 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, 2008. 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, 2008. 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, 2008.

## 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 was not limited to) the withdrawal or postponement of \$10,125,000 (Cdn.) in financing. The Company and Vasquir have agreed to amend certain language in the lease, which is still being negotiated. There were no changes made to the consideration to be paid by Vasquir under the lease. Additionally, the Company paid \$20,000 to Vasquir with respect to legal fees incurred.

### ***Discussion of Operations and Financial Condition***

#### **Results of Operations**

Interest income for the six months ended June 30, 2008 was \$53,784 compared to \$172,440 for the six months ended June 30, 2007. The loss for the six months ended June 30, 2008 was \$473,961 as compared with a loss of \$598,571 for the six months ended June 30, 2007. The decrease in the loss for the current period is related to the following:

- Foreign exchange gain as a result of the stronger Canadian dollar. The US\$ exchange rate average for the six months ended June 2008 was .99818 as compared to 1.11882 for the six months ended June 2007.
- Transfer agent and regulatory fees decreased by \$68,787 in the current period. In the comparative period, the Company incurred an expense of \$75,858 for listing in the Toronto Stock Exchange.

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

Corporate & administration fees	\$	9,787
Shareholders communication (Canada)		24,898
Shareholders communication (USA)		29,946
<b>Total</b>	<b>\$</b>	<b>64,631</b>

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

Travel	\$	39,151
Communication and information		69,966
Conferences & meetings		6,634
Meals & entertainment		9,932
Website		773
Press releases and printed materials		4,164
<b>Total</b>	<b>\$</b>	<b>130,620</b>

## 1.4 Results of Operations (continued)

### *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 an agreement with Jaffoni & Collins (“JCI”) to provide investor relations services for the Company. Founded in 1994, JCI ([www.jcir.com](http://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.

#### **Financings, Principal Purposes & Milestones**

The Company was not involved in any financings during the year ended December 31, 2007 and during the six months ended June 30, 2008. On August 1, 2008, 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 \$1.15 per share for gross proceeds of \$1,725,000. 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 \$1.60 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 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission will apply to a portion of the financing attributable to authorized agents. On August 7, 2008, the Company received TSX approval.

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:

	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
	<b>Jun-08</b>	<b>Mar-08</b>	<b>Dec-07</b>	<b>Sep-07</b>	<b>Jun-07</b>	<b>Mar-07</b>	<b>Dec-06</b>	<b>Sep-06</b>
Total loss	(269,448)	(204,513)	(417,092)	(236,596)	(248,058)	(350,513)	(21,462)	(1,025,738)
Per share	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.00)	(\$0.05)

### *Discussion*

For a detailed discussion on the six months ended June 30, 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 June 30, 2008, the Company's working capital was \$421,224 (December 31, 2007 - \$3,584,860). The Company currently has sufficient working capital for general and administration expenses until December 2008 but will require additional funding to meet the exploration program for the Fire Creek property (Refer to August 1, 2008 announcing \$1.5 million non-brokered private placement). 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 2008 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.

### Credit Risk

At June 30, 2008 the Company held treasury bills and cash of \$1,260,874 (December 2007 - \$3,998,517) 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.

### 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 June 30, 2008 the Company had the following financial assets and liabilities:

	<b>US Dollars</b>
Cash	\$ 194,594
Marketable securities	\$ 475
Reclamation bonds	\$ 177,300
Accounts payable	\$ 832,300
Due from related parties	\$ 12,196

At June 30, 2008 US dollar amounts were converted at a rate of \$1.01112 Canadian dollars to \$1.00 US dollar.

### Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to shareholders largely through equity sales. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus, and deficit.

## 1.7 **Capital Resources**

The only capital resources of the Company are its mineral properties with a historical cost of \$18,620,113 and its property and equipment with a net book value of \$38,268.

## 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 six months ended June 30, 2008, with breakdown as follows:

<b>Expense</b>	<b>30-Jun-08</b>	<b>30-Jun-07</b>
Management salaries	\$ 34,608	\$ 44,234
Management fees	17,966	19,498
Consulting fees:		
- Corporate & admin fees	24,898	27,878
Accounting fees	31,760	31,846
Rent	2,995	3,250
Deferred geological fees	77,611	64,711
<b>Total for the year</b>	<b>\$ 189,838</b>	<b>\$ 191,417</b>

Amounts due to a director of \$22,353 (June 30, 2007, due from - \$13,606) are non-interest bearing, unsecured, and payable upon demand.

## 1.10 **Second Quarter – 2008:**

The second 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, and 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.

### 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, 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 (August 14, 2008)*

	Number	Book Value	Contributed Surplus
Common Shares	22,989,673	\$27,009,163	\$2,392,395

##### *Summary of incentive stock options: (August 14, 2008)*

Number of Shares	Expiry Date	Exercise Price
659,750	November 28, 2008	\$0.65
475,381	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 22, 2013	\$2.30
2,235,131		

#### 1.15.1 Share Capital (continued)

##### *Summary of warrants outstanding: (August 14, 2008)*

Number of Shares	Expiry Date	Exercise Price
Nil	N/A	N/A

#### 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 period ended June 30, 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 a 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 August 1, 2008, 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 \$1.15 per share for gross proceeds of \$1,725,000. 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 \$1.60 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 30 consecutive trading days, at a price of \$1.90 or greater. A 6% commission will apply to a portion of the financing attributable to authorized agents. On August 7, 2008, the Company received approval from the regulatory authorities.

### **1.15.5 Additional information**

Additional information relating to the company is on SEDAR at [www.sedar.com](http://www.sedar.com).