

Klondex Mines Ltd.
Interim Consolidated Financial Statements
(Unaudited)
March 31, 2010

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

March 31, 2010

Interim Consolidated Balance Sheets	3
Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit	4
Interim Consolidated Statements of Deferred Acquisition and Exploration Expenses	5
Interim Consolidated Statements of Cash Flows	6
Notes to the Interim Consolidated Financial Statements	7-17

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

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 3,879,354	\$ 3,549,458
Marketable securities (note 4)	152	189
Prepaid expenses	54,163	37,054
Accounts receivable	7,460	45,459
	3,941,129	3,632,160
Rent deposit (note 5)	-	1,770
Property and equipment (note 6)	17,694	20,389
Mineral properties and related deferred expenses (note 7)	23,648,301	23,466,593
Reclamation bonds (note 9)	1,429,901	185,562
	\$ 29,037,025	\$ 27,306,474
Liabilities		
Current		
Accounts payable and accruals	\$ 126,877	\$ 454,079
Due to related parties (note 14)	168,894	145,082
	295,771	599,161
Loan payable (note 8)	1,429,883	-
Asset retirement obligation (note 9)	180,066	185,562
Deferred lease inducement	-	838
	1,905,720	785,561
Shareholders' Equity		
Share capital (note 10)	38,227,368	37,191,568
Contributed surplus (notes 10 and 11)	4,224,195	2,528,431
Deficit	(15,320,258)	(13,199,086)
	27,131,305	26,520,913
	\$ 29,037,025	\$ 27,306,474

Nature of operations (note 1)
Commitments (notes 7 and 9)
Contingency (note 16)

Approved on behalf of the Board of Directors:

William J. Solloway (sgd.) Director

Brendan Donohoe (sgd.) Director

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

Klondex Mines Ltd.**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit (Unaudited)**

For the three months ended March 31,	2010	2009
Administrative expenses		
Amortization	\$ 2,706	\$ 3,395
Consulting fees (note 14)	58,141	36,418
Legal, audit and accounting (note 14)	53,614	25,637
Management fees (note 14)	65,787	30,138
Office and miscellaneous (note 14)	38,824	57,315
Stock-based compensation (note 11)	1,710,564	541,432
Telephone	5,491	4,732
Transfer agent and regulatory fees	31,789	22,784
Travel, accommodation, meetings	91,337	23,186
Foreign exchange loss (gain)	64,746	47,766
Interest earned	(1,859)	(1,254)
	2,121,140	791,549
Other item		
Unrealized (gain) loss on marketable securities	32	(8)
	2,121,172	791,541
Net and comprehensive loss for the period	(2,121,172)	(791,541)
Deficit, beginning of period	(13,199,086)	(10,786,531)
Deficit, end of period	\$ (15,320,258)	\$ (11,578,072)
Basic and diluted loss per share	\$ (0.07)	\$ (0.03)
Weighted average number of shares outstanding	31,269,404	25,303,137

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

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

Nevada Properties	Three Months Ended March 31, 2010 (Unaudited)	Year Ended December 31, 2009
Balance, beginning of period	\$ 23,466,593	\$ 21,282,764
Acquisition of land	16,548	53,610
Assays and core costs	27,661	158,064
Consulting	75,605	363,641
Drilling	508	1,104,710
Environmental consulting and permitting	10,845	56,557
Field supplies and equipment	20,544	76,492
Geophysics	1,463	118,478
Lease payments, taxes and royalties	-	22,517
Legal	856	2,135
Maintenance fees	2,059	102,688
Mapping and sampling	2,500	7,504
Miscellaneous	10,419	49,359
Pond	11,503	44,062
Site visits	1,197	24,012
Current period expenditures	181,708	2,183,829
Balance, end of period	\$ 23,648,301	\$ 23,466,593

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

Klondex Mines Ltd.**Interim Consolidated Statements of Cash Flows (Unaudited)**

For the three months ended March 31,	2010	2009
Cash provided by (used in)		
Operating activities		
Loss for the period	\$ (2,121,172)	\$ (791,541)
Items not involving cash		
Amortization	2,706	3,395
Deferred lease inducement recognized	(838)	(819)
Foreign exchange (gain) loss	46,186	44,291
Stock-based compensation	1,710,564	541,432
Unrealized gain on marketable securities	32	(8)
	(362,522)	(203,250)
Change in non-cash working capital items		
Accounts receivable	37,999	(6,299)
Prepaid expenses	(17,109)	12,319
Accounts payable	(78,804)	(15,407)
Rent deposit	1,770	5,319
	(418,666)	(207,318)
Financing activities		
Issue of share capital	1,021,000	900,000
Share issue cost, cash	-	(41,400)
Advances from (repayment to) directors	23,812	57,697
Loan payable	1,429,883	-
	2,478,292	916,297
Investing activities		
Purchase of property and equipment	-	-
Accounts payable related to mineral properties	(204,071)	(459,760)
Deferred exploration expenditures	(181,708)	(115,274)
Reclamation bond posted	(1,249,835)	-
	(1,635,614)	(575,034)
Effect of foreign exchange on cash balances	(94,116)	(25,246)
Net increase in cash and cash equivalents	329,986	108,699
Cash and cash equivalents, beginning of period	3,549,458	740,891
Cash and cash equivalents, end of period	\$ 3,879,354	\$ 849,590

Supplemental Cash Flow Information (notes 3 and 12)

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 Interim Consolidated Financial Statements (Unaudited)

March 31, 2010

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 March 31, 2010, the Company had a working capital of \$3,645,358 (December 31 2009 working capital - \$3,032,999). 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.

2. Significant Accounting Policies

These unaudited interim 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 interim 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, 2009 for additional information.

Accounting Polices to be Adopted

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles ("GAAP") and IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not been estimated at this time.

Klondex Mines Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

March 31, 2010

2. Significant Accounting Policies (continued)

Accounting Policies to be Adopted (continued)

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Estimated obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted.

Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, consolidated financial statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Non controlling interests

In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

The Company is required to adopt Sections 1582, 1601 and 1602 concurrently; at this time the Company does not anticipate adopting these sections prior to the adoption of IFRS and therefore does not expect any impact to the consolidated financial statements.

3. Cash and cash equivalents

	31-Mar-10	31-Dec-09
Canadian chartered bank	\$ 565,866	\$ 107,927
US banks	296,717	98,783
Canadian brokerage firm	296,303	964,030
US brokerage firm	2,720,468	2,378,718
	\$ 3,879,354	\$ 3,549,458

4. Marketable securities

On May 18, 2009, Coeur D'Alene announced a reverse stock split at a split ratio of 1-for-10. The reverse stock split took effect on May 26, 2009. As at March 31, 2010, the Company holds 10 shares of Coeur D'Alene Mines with a market value of \$152 (US\$150).

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

March 31, 2010

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 previous year, the Company used \$12,284 of this deposit. During the period, the Company received the balance of \$1,770, which was the amount outstanding as at December 31, 2009. In addition, the Company received interest of \$854.

6. Property and Equipment

	March 31, 2010		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,905	\$ 28,288	\$ 9,617
Telephone equipment	1,376	1,046	330
Furniture and fixtures	29,068	21,321	7,747
Leasehold improvements	24,736	24,736	-
	\$ 93,085	\$ 75,391	\$ 17,694

	December 31, 2009		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,905	\$ 27,538	\$ 10,367
Telephone equipment	1,376	1,033	343
Furniture and fixtures	29,068	20,909	8,159
Leasehold improvements	24,736	23,216	1,520
	\$ 93,085	\$ 72,696	\$ 20,389

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 US\$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 Interim Consolidated Financial Statements (Unaudited)

March 31, 2010

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\$305,000 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.

The agreement was amended August 4, 2009. The amended consideration of the Option is as follows: the Company must make option payments in the aggregate amount of \$480,000 over a period of six years (US\$305,000 paid to date), and may purchase the Property on or before December 17, 2011 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 81 claims (840 acres) situated about 6 miles east of the town of Crescent Valley.

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. Loan Payable

During the period, the Company secured a loan facility for US\$1,421,500 bearing simple interest at 6% per annum and maturing on May 16, 2011. This loan is secured by all assets of the Company excluding the mineral properties. The loan was used to post the reclamation bond required pursuant to the Bureau of Land Management permits for the underground development program focused on bulk sampling.

9. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$204,975 (US\$177,300) 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 \$180,066 was determined to be equal to the estimated drill site remediation costs as it is assumed that remediation would commence within six months of year end. As at March 31, 2010 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.

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

March 31, 2010

9. Asset Retirement Obligation (continued)

In previous fiscal years, the Company has posted non-interest bearing bonds totalling \$180,066 (US\$177,300) with the Bureau of Land Management in the State of Nevada as security for these obligations. As at March 31, 2010, the Company has posted an additional non-interest bearing bond in the amount of \$1,249,835 (US\$1,230,637) bringing the total bonds to \$1,429,901 (US\$1,407,937). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost, adjusted for current exchange rates.

10. Share Capital

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

b) **Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2008	25,219,804	\$ 29,566,689	\$ 2,186,083
Issued for cash			
Private placement @ \$0.60	1,500,000	900,000	-
Private placement @ \$1.75	1,714,285	3,000,000	-
Exercise of options	825,000	792,000	-
Exercise of warrants	1,830,000	2,641,000	-
Fair value of options exercised	-	511,800	(511,800)
	5,869,285	7,844,800	(511,800)
Share issue costs			
Commission on private placements	-	(161,400)	-
Legal costs and TSX fees	-	(58,521)	-
	-	(219,921)	-
Stock based compensation	-	-	854,148
Increase for the year	5,869,285	7,624,879	342,348
Balance, December 31, 2009	31,089,089	37,191,568	2,528,431
Issued for cash			
Exercise of options	40,000	40,000	-
Exercise of warrants	1,090,000	981,000	-
Fair value of options exercised	-	14,800	(14,800)
	1,130,000	1,035,800	(14,800)
Stock based compensation	-	-	1,710,564
Increase for the period	1,130,000	1,035,800	1,695,764
Balance, March 31, 2010	32,219,089	\$ 38,227,368	\$ 4,224,195

On March 26, 2009, the Company announced that it had completed a non-brokered private placement of 1,500,000 units (the "Units") at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit consists 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 are 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 that applied to a portion of the financing attributable to authorized agents in the amount of \$41,400 was paid.

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

March 31, 2010

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

Although the Company's shares traded at a price of \$1.30 or greater for 20 consecutive days, the Board of Directors decided not to call the early expiration of the warrants.

On June 30, 2009, the Company announced that it had completed a non-brokered private placement of 1,714,285 common shares at a price of \$1.75 per share for gross proceeds of \$3,000,000. A 5% commission that applied to a portion of the financing attributable to authorized agent in the amount of \$120,000 was paid.

During the year ended December 31, 2009, 825,000 stock options with exercise prices of \$0.86 and \$1.05 were exercised for gross proceeds of \$792,000. In addition, 1,830,000 share purchase warrants with exercise prices of \$0.90 to \$1.60 were exercised for gross proceeds of \$2,641,000.

During the period ended March 31, 2010, 40,000 stock options with an exercise price of \$1.00 were exercised for gross proceeds of \$40,000. In addition, 1,090,000 share purchase warrants with an exercise price of \$0.90 were exercised for gross proceeds of \$981,000.

c) Options outstanding

A summary of the Company's outstanding stock options as of March 31, 2010 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2008	2,575,000	\$ 1.51
Options granted (note 11)	950,000	1.00
Options expired	(825,000)	0.96
Outstanding at December 31, 2009	2,700,000	1.50
Options granted (note 11)	1,600,000	1.25
Options exercised	(40,000)	1.00
Options cancelled	(1,100,000)	2.32
Outstanding at March 31, 2010	3,160,000	\$ 1.09

Number of Underlying Shares	Weighted average exercise price	Exercisable	Weighted average exercise price	Exercise Price	Expiry Date
125,000		125,000		\$ 1.05	June 10, 2010
775,000		775,000		\$ 0.86	September 17, 2013
660,000		660,000		\$1.00	March 4, 2014
1,350,000		1,350,000		\$ 1.25	February 10, 2020
200,000		50,000		\$ 1.25	March 18, 2012
50,000		50,000		\$1.25	March 18, 2011
3,160,000	\$1.09	3,010,000	\$1.09		

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

March 31, 2010

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

A summary of the Company's outstanding share purchase warrants at March 31, 2010 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2008	1,520,000	\$ 1.60
Warrants granted, as per private placement	1,500,000	0.90
Warrants exercised	(1,830,000)	(1.44)
Warrants expired	(100,000)	(1.60)
Outstanding and exercisable at December 31, 2009	1,090,000	\$ 0.90
Warrants exercised	(1,090,000)	(0.90)
Outstanding and exercisable at March 31, 2010	-	\$ -

At March 31, 2010, there were no outstanding share purchase warrants.

11. 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 TSE policies), or such other price as may be agreed to by the Company and accepted by the TSE. 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 March 2, 2009, the Company granted directors, officers and consultants 950,000 incentive stock options at an exercise price of \$1.00 per share expiring on March 2, 2014. Options have no vesting period imposed and are immediately exercisable.

On February 10, 2010, the Company granted directors, officers and consultants 1,350,000 incentive stock options at an exercise price of \$1.25 per share expiring on February 10, 2020. Options have no vesting period imposed and are immediately exercisable.

On March 18, 2010, the Company granted directors, officers and consultants 250,000 incentive stock options at an exercise price of \$1.25 per share. 200,000 incentive stock options have an expiry date of March 18, 2012 and 25% vest immediately and the balance to vest at 25% every quarter. 50,000 incentive stock options have an expiry date of March 18, 2011 and vest immediately.

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

March 31, 2010

11. Stock Based Compensation (continued)

During the period ended March 31, 2010, 1,600,000 options were granted (2009 – 950,000) with a weighted average fair value of \$1.15 per option (2008 - \$0.37 per option). 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 2010	10-Feb-10	18-Mar-10	18-Mar-10	Total or Average
Number of options	1,350,000	200,000	50,000	1,600,000
Number expected to vest	1,350,000	50,000	50,000	1,450,000
Estimated life	10 years	2 years	1 year	8.72 years
Share price at date of grant	\$1.26	\$1.46	\$1.46	\$1.29
Option exercise price	\$1.25	\$1.25	\$1.25	\$1.25
Risk free interest rate	3.43%	2.25%	2.25%	3.25%
Estimated annual volatility	124.96%	109.14%	109.65%	122.5%
Option fair value	\$1.21	\$0.88	\$0.68	\$1.15
Compensation cost	\$1,632,338	\$44,027	\$34,199	\$1,710,564

Date of grant 2009	02-Mar-09	Total or Average
Number of options	950,000	950,000
Number expected to vest	950,000	950,000
Estimated life	5 years	5 years
Share price at date of grant	\$0.63	\$0.63
Option exercise price	\$1.00	\$1.00
Risk free interest rate	2.5%	2.5%
Estimated annual volatility	84.44%	84.44%
Option fair value	\$0.37	\$0.37
Compensation cost	\$355,889	\$355,889

12. Non Cash Transactions

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

	March 31, 2010	December 31, 2009
Operating activities		
Accounts payable related to property	\$ 28,466	\$ 232,537
Financing activities		
Contributed surplus allocated on exercise of options	\$ 14,800	\$ 511,800
Share capital allocated from contributed surplus	\$ (14,800)	\$ (511,800)

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

March 31, 2010

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.

The Company had the following financial assets and liabilities in US dollars:

	31-Mar-10	31-Dec-09
Cash	\$ 3,036,007	\$2,377,026
Marketable securities	\$ 150	\$ 181
Reclamation bonds	\$ 1,429,901	\$ 177,300
Accounts payable and accrued liabilities	\$ 55,274	\$ 251,431
Due to related parties	\$ 116,029	\$ 92,244
Asset retirement obligation	\$ 177,300	\$ 177,300

At March 31, 2010 US dollar amounts were converted at a rate of \$1.0156 (December 2009 - \$1.0466) Canadian dollars to \$1.00 US dollar. Based on current levels of assets and liabilities held in US dollars over the last period, for every 10% fluctuation in foreign exchange rates, there will be an approximate \$418,169 effect on its foreign exchange gain (loss).

b) Credit risk

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is held with the Bank of Montreal, Jones Gable & Company, Citibank, Bank of America, and Wells Fargo.

c) Interest rate risk

Included in the loss for the period in the interim consolidated financial statements is interest income on Canadian dollar cash. As at March 31, 2010, the Company was not subject to or exposed to any material interest rate risk.

d) Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current.

e) Commodity price risk

The Company's ability to raise capital to fund operations of its gold property is subject to risks associated with fluctuations in the market prices of gold.

f) 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.

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

March 31, 2010

13. Financial Instruments (continued)**f) Capital risk management** (continued)

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 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. The Company is not subject to any external covenants.

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 three months ended March 31, 2010, the Company incurred consulting fees of \$12,000 (2009 - \$12,000) and capitalized mineral property services of \$10,200 (2009 - \$23,000) to an officer and to a company controlled by a director.
- b) During the three months ended March 31, 2010, the Company incurred salary and benefit expenses, disclosed as management fees, of \$44,240 (2009 - \$18,837) and rent of \$6,423 (2009 - \$9,418) to the President.
- c) During the three months ended March 31, 2010, the Company incurred management fees of \$18,750 (2009 - \$11,301) and rent of \$1,567 (2009 - \$1,884) to a director.
- d) During the three months ended March 31, 2010, the Company incurred accounting fees of \$23,272 (2009 - \$21,182) to an officer.
- e) Amounts owing to directors and officers of \$168,894 (December 31 2009 - \$145,802) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

15. Segmented Information

March 31, 2010	Canada	United States	Total
Interest earned	\$ 1,050	\$ 809	\$ 1,859
Expenses	(1,962,936)	(160,095)	(2,123,031)
Loss for the period	\$ (1,961,886)	\$ (159,286)	\$ (2,121,172)
Identifiable assets	\$ 3,606,099	\$ 25,430,926	\$ 29,037,025

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

March 31, 2010

15. Segmented Information (continued)

March 31, 2009	Canada	United States	Total
Interest earned	\$ 1,254	\$ -	\$ 1,254
Expenses	(678,063)	(114,732)	(792,795)
Loss for the period	\$ (676,809)	\$ (114,732)	\$ (791,541)
Identifiable assets	\$ 1,802,533	\$ 21,704,953	\$ 23,507,486

16. Contingency

On July 20, 2009 the Company entered into a letter agreement (the "Letter Agreement") with Paramount Gold and Silver Corp. ("Paramount") setting out the principal terms upon which Paramount would acquire, pursuant to a plan of arrangement, all of the outstanding shares of the Company on the basis of 1.45 shares of the Paramount common stock for each of common share of the Company. On September 24, 2009, the Company terminated the Letter Agreement pursuant to its terms. The Company announced the termination in a news release on September 25, 2009. In its news release, the Company specified the reasons for the termination.

On September 30, 2009, Paramount commenced an action in the Supreme Court of British Columbia seeking payment of a break fee in the amount of US\$2.85 million, and unspecified damages for breach of contract, malicious falsehood and defamation. The Company denies that it has any liability to Paramount, and intends to mount an aggressive, vigorous defence against Paramount's claims. As of the date of this report, the Company's legal counsel is preparing the defence and counterclaim. No accrual has been made in these financial statements as the resolution is not considered to be determinable.

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months Ended March 31, 2010

Directors and Officers as at May 13, 2010:

Directors:

William J. Solloway
Brendan Donohoe
Robert Sibthorpe
Ronald Shorr
Weiguo Lang

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 Three Months Ended March 31, 2010

1.1 Date of This Report

May 13, 2010

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>2009</u>	December 31, <u>2008</u>	December 31, <u>2007</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$2,412,555	\$1,154,138	\$1,252,259
(ii) Loss per share - basic	\$0.09	\$0.05	\$0.06
(iii) Loss per share - diluted	\$0.09	\$0.05	\$0.06
(c) Net loss			
(i) Total loss	\$2,412,555	\$1,154,138	\$1,252,259
(ii) Loss per share - basic	\$0.09	\$0.05	\$0.06
(iii) Loss per share - diluted	\$0.09	\$0.05	\$0.06
(d) Total assets	\$27,306,474	\$23,430,737	\$20,366,135
(e) Total long-term liabilities	\$838	\$4,113	\$7,388
(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	March 31, 2010	December 31, 2009
Balance, beginning of the period	\$ 23,466,593	\$ 21,282,764
Acquisition of land	16,548	53,610
Assays and core costs	27,661	158,064
Consulting - geological	75,605	363,641
Drilling	508	1,104,710
Environmental consulting & permitting	10,845	56,557
Field supplies and equipment	20,544	76,492
Geophysics	1,463	118,478
Lease payments, taxes and royalties	-	22,517
Legal	856	2,135
Maintenance fees	2,059	102,688
Mapping and sampling	2,500	7,504
Miscellaneous	10,419	49,359
Pond	11,503	44,062
Site visits	1,197	24,012
Current expenditures for the period	181,708	2,183,829
Balance, end of year	\$ 23,648,301	\$ 23,466,593

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 fiscal 2004, the Company acquired four additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). During fiscal 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 year ended December 31, 2008, 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 were 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 were 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

On January 20, 2010, the Company announced the final results from its 2009 drilling campaign. The 2009 program included RC drilling of two IP anomalies, one of which yielded the discovery of two new veins. The IP anomaly targets were developed in a geophysical survey also conducted in 2009. KDX completed 15 holes totaling 20,221 feet (6,163 meters) within the Fire Creek project in 2009.

2009 Geophysical Survey Identifies 15 Drilling Targets

In the summer of 2009 a new detailed, multi-method geophysical survey was run at Fire Creek (FC). The survey identified 15 untested anomalies that are drilling targets. Using a reverse circulation (RC) drill rig Klondex tested two of the anomalies. Drill holes FC0912RC through FC0915RC tested two anomalies located east of the Main vein zone. Holes FC0912RC and FC0913RC intersected two high-angle dikes with weakly anomalous gold values near the margins of the dikes below the first anomaly drilled.

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada (continued)

Exploration Results and Future Plans & Developments (continued)

RC Program Identifies Two New Veins

Hole FC0914RC intersected a broad zone of +0.03 oz/ton gold occurring between 925 and 1360 feet. Within this anomaly are two veins consisting of 3.5 feet (1.1 meter) true width of 0.26 oz/ton (9.1 g/t) gold and 0.76 oz/ton (25.9 g/t) silver and 3.5 feet (1.1 meter) true width of 0.26 oz/ton (9.1 g/t) gold and 0.18 oz/ton (6.3 g/t) silver. This new discovery is approximately 300 feet (91 meters) east of the nearest vein. FC0915RC was lost before reaching the mineralized horizon. Core drilling of the new discovery is planned in the spring of 2010.

Main Zone Definition Drilling Yields 1.45 oz/ton Intercept

Holes FC0901 through FC0905 were targeted within the Main vein zone and were used to further define areas suitable for bulk sampling once underground work is initiated. These results included several +0.25 oz/ton gold values including 8.8 feet (2.7 meters) true width of 1.45 oz/ton (49.9 g/t) gold and 0.88 oz/ton (30.1 g/t) silver in hole FC0903.

Summary 2009 Drill Results - Fire Creek										
Hole No.	From (feet)	To (feet)	Interval (feet)	True Width (feet)	Gold (oz/ton)	Silver (oz/ton)	True Width (meters)	Gold (grams/tonne)	Silver (grams/tonne)	Target Area
FC0901 including	885	945	60	42.0	0.124	0.312	12.8	4.25	10.7	Main
	885	893	8	5.6	0.237	0.663	1.7	8.12	22.7	Main
	935	945	10	7.0	0.505	0.461	2.1	17.30	15.8	Main
FC0902	1035	1055	20	14.0	0.055	0.091	4.3	1.90	3.1	Main
FC0903 including	220	270	50	40.0	0.104	0.057	12.2	3.56	1.9	Main
	250	260	10	8.0	0.331	0.044	2.4	11.34	1.5	Main
	915	943.2	28.2	20.8	0.730	0.470	6.3	25.00	16.1	Main
including	915	927.5	12.5	8.8	1.457	0.879	2.7	49.90	30.1	Main
FC0904	727.8	745	17.2	12.0	0.312	0.572	3.7	10.70	19.6	Main
	810	815	5	3.5	0.295	0.149	1.1	10.10	5.1	Main
FC0905	575	590	15	10.7	0.043	0.006	3.3	1.47	0.2	Main
	612.5	625	12.5	8.8	0.067	0.047	2.7	2.30	1.6	Main
	785	795	10	7.1	0.526	0.435	2.2	18.00	14.9	Main
	915	1001	86	60.2	0.050	0.199	18.3	1.70	6.8	Main
FC0906	500	510	10	7.0	0.093	0.219	2.1	3.17	7.5	S. Main Ext.
	615	625	10	7.0	0.063	0.234	2.1	2.17	8.0	S. Main Ext.
FC0907	905	920	15	10.6	0.062	0.059	3.2	2.14	2.0	N. Main Ext.
FC0908	850	885	35	29.8	0.077	0.053	9.1	2.63	1.8	N. Main Ext.
	1195	1220	25	20.0	0.046	0.172	6.1	1.56	5.9	N. Main Ext.
FC0909	No Values >10 feet @ > 0.03 oz/ton Gold									N. Main Ext.
FC0910	790	805	15	12.0	0.053	0.053	3.7	1.80	1.8	New North
FC0911	815	840	25	20.0	0.044	0.155	6.1	1.51	5.3	New North
	895	910	15	12.0	0.063	<0.015	3.7	2.16	<0.5	New North
FC0912RC	No Values >10 feet @ > 0.03 oz/ton Gold									IP Anom. #2
FC0913RC	No Values >10 feet @ > 0.03 oz/ton Gold									IP Anom. #2
FC0914RC	925	940	15	12.0	0.053	0.020	3.7	1.83	0.7	IP Anom. #1
	1010	1025	15	12.0	0.032	0.140	3.7	1.10	4.8	IP Anom. #1
	1115	1125	10	7.1	0.054	0.126	2.2	1.84	4.3	IP Anom. #1
	1225	1235	10	7.1	0.196	0.581	2.2	6.70	19.9	IP Anom. #1

including	1225	1230	5	3.5	0.265	0.756	1.1	9.08	25.9	IP Anom. #1
	1345	1360	15	10.5	0.127	0.143	3.2	4.35	4.9	IP Anom. #1
including	1350	1355	5	3.5	0.265	0.184	1.1	9.07	6.3	IP Anom. #1
FC0915RC	No Values >10 feet @ > 0.03 oz/ton Gold – Hole Lost									IP Anom. #1
Note: Table only includes values equivalent to ≥ 10 feet @ ≥ 0.03 oz/ton gold										

Main and New North Zone Extension Drilling

Six of the remaining holes were targeted on possible extensions of the Main zone to the north and south and the north extension of the New North vein zone. FC0906 is the first hole to test the southernmost extension of Main, and it found two sub-grade veins worthy of further testing. FC0907 through FC0909 tested the northern extension of the Main zone. FC0907 and FC0908 both hit sub-grade veins with FC0908 intersecting 29.8 feet (9.1 meters) true width of 0.08 oz/ton (2.6 g/t) gold. Located on the northernmost discovery at Main, this major fault zone will be tested further. FC0909 did not intersect any significant veining.

Drill holes FC0910 and FC0911 tested the northern extension of the New North zone. FC0910 was a 100-meter step-out and the first hole to explore this far north. The sub-grade vein intersected indicates the mineralized structure is still present, and a fence of holes are planned to further test this area. FC0911 was drilled to test directly west of a previous vein intercept and intercepted two sub-grade veins.

On March 10, 2010, the Company announced an update on permitting for its underground development program focused on bulk sampling and exploration drilling.

The Company has posted non-interest bearing bonds totalling \$1,429,901 (U.S. \$1,407,937) reclamation bond required pursuant to the Company's U.S. Bureau of Land Management permits (BLM) issued in late December 2009. To fund the bond without issuing common stock at current levels, the Company secured a loan facility bearing interest at 6% per year, which matures on May 16, 2011. The Company has also executed a contract with Western Cultural Resource Management (WCRM) to perform archeological site work also required pursuant to BLM permits.

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\$305,000 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.

The agreement was amended August 4, 2009. The amended consideration of the Option is as follows: the Company must make option payments in the aggregate amount of \$480,000 over a period of six years (US\$305,000 paid to date), and may purchase the Property on or before December 17, 2011 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.

1.4 Results of Operations (continued)

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 were 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.

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 were 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.

Hot Springs Point, Lander County, Nevada

The Company has a 100% ownership interest in 81 claims (840 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 were renewed on September 1, 2009.

Discussion of Operations and Financial Condition

Results of Operations

Interest income for the three months ended March 31, 2010 was \$1,859 compared to \$1,254 for the three months ended March 31, 2009. The loss for the three months ended March 31, 2010 was \$2,121,172 as compared with a loss of \$791,541 for the three months ended March 31, 2009.

The increase in the loss for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 is related to the following:

- Stock-based compensation increased by \$1,169,132 during the three months ended March 31, 2010. The Company expensed \$1,710,564 as stock-based compensation during the current period as a result of granting 1,600,000 stock options to directors, officers and consultants.
- Consulting fees increased by \$21,723. This was a result of the Company's "Outreach Program". The Company engaged the services of Bryson Goodwin as Director of Investor Relations to manage the market strategies and outreach program across Canada, the United States, Asia, and Europe. Under the direction of Bryson Goodwin, for the purpose of dissemination of important news and information, the Company engaged the services of the following companies – Jay's Watchlist, Vantage Communication, and Robertson Walters Investment Capital Corp.
- Legal and accounting fees increased by \$27,977. The increase is directly related to the defence against the Paramount lawsuit. Total legal fees related to the lawsuit came to \$20,395.
- Management fees increased by \$35,649. During the period, the compensation committee approved an increase in pay for both the President and the Treasurer.
- Travel, conferences and meetings increased by \$68,151. The increase is due to the "Outreach Program" of the Company. Certain individuals travelled to Toronto, New York, Boston and Hong Kong attending investors meetings and mining conferences.

1.4 Results of Operations (continued)

Discussion of Operations and Financial Condition

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

Corporate & administration fees	\$	5,975
Shareholders communication		43,666
Marketing		8,500
Total	\$	58,141

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

Travel	\$	51,099
Communication, Conference and meetings		30,083
Meals & entertainment		10,155
Total	\$	91,337

Investor Relations Activities

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 25,000 at \$0.86 per share, 25,000 @ \$1.00 per share and 100,000 @ \$1.25 per share.

During the period ended March 31, 2010, the Company engaged the services of Bryson Goodwin as Director of Investor Relations to manage the market strategies and outreach program across Canada, the United States, Asia, and Europe. Under the direction of Bryson Goodwin, for the purpose of dissemination of important news and information, the Company engaged the services of the following companies – Jay’s Watchlist, Vantage Communication, and Robertson Walters Investment Capital Corp. In addition, Mr. Goodwin, along with Mr. Blane Wilson, Executive Mining Advisor, attended meeting and conferences in Toronto, New York, Boston, and Hong Kong.

Financings, Principal Purposes & Milestones

On March 2, 2010, the Company announced the hiring of two strategic and vital components of its go forward strategy. Blane W. Wilson has been appointed as Executive Mining Advisor, Nevada Operations, to oversee the advancement of the Company’s mining and production programs at its high-grade Fire Creek gold deposit, and Bryson Goodwin has been appointed as Director of Investor Relations to manage our market strategies and outreach.

1.4 Results of Operations (continued)

Financings, Principal Purposes & Milestones (continued)

On March 10, 2010, the Company announced that it had posted reclamation bonds totalling U.S. \$1,407,937, which was required pursuant to the Company's U.S. Bureau of Land Management permits (BLM) issued in late December 2009. To fund the bond without issuing common stock at current levels, the Company secured a loan facility of US\$1,421,500 bearing simple interest at 6% per year, which matures on May 16, 2011. This loan is secured by all assets of the Company excluding the mineral properties. The Company has also executed a contract with Western Cultural Resource Management (WCRM) to perform archeological site work also required pursuant to BLM permits.

1.5 Summary of Quarterly Results

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

	Q1 Mar-10	Q4 Dec-09	Q3 Sep-09	Q2 Jun-09	Q1 Mar-09	Q4 Dec-08	Q3 Sep-08	Q2 Jun-08
Total loss	(2,121,172)	(440,232)	(531,358)	(649,424)	(791,541)	(480,823)	(199,354)	(269,448)
Per share	(\$0.07)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.01)

Discussion

For a detailed discussion on the three months ended March 31, 2010, 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 March 31, 2010, the Company had working capital of \$3,645,358 (December 31, 2009 – working capital deficit of \$3,032,999). The Company currently has sufficient working capital for general and administration expenses. 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 2010 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.

1.6 Liquidity (continued)

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.

The Company had the following financial assets and liabilities:

	31-Mar-10	31-Dec-09
Cash	\$ 3,036,007	\$2,377,026
Marketable securities	\$ 150	\$ 181
Reclamation bonds	\$ 1,429,901	\$ 177,300
Accounts payable and accrued liabilities	\$ 55,274	\$ 251,431
Due to related parties	\$ 116,029	\$ 92,244
Asset retirement obligation	\$ 177,300	\$ 177,300

At March 31, 2010 and 2009 US dollar amounts were converted at a rate of \$1.0156 (December 31, 2009 - \$1.0466) 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 March 31, 2010. 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 \$23,648,301 and its property and equipment with a net book value of \$17,694.

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 three months ended March 31, 2010, with breakdown as follows:

Expense	31-Mar-10	31-Mar-09
Management salaries & fees	\$ 65,787	\$ 30,138
Consulting fees	12,000	12,000
Accounting fees	23,272	21,182
Rent	7,990	11,302
Deferred geological fees	10,200	23,000
Total for the period	\$ 119,249	\$ 97,622

Amounts due to directors and officers of \$168,894 (December 31, 2009 - \$145,082) are non-interest bearing, unsecured, and payable upon demand.

The President, Chief Financial Officer and Corporate Treasurer are under management contracts with base annual compensation of US\$150,000, Cdn\$60,000 and US\$75,000 respectively. In the event of a change of control, a termination payment is triggered to each of these officers in the lump sum amounts of US\$225,000, Cdn\$75,000 and US\$112,500 respectively. Additionally, in the case of the President, a termination payment equivalent to 100% of the annual compensation is triggered by the executive's death or permanent physical or mental disability. These management contracts have a term of 5 years expiring on January 4, 2015.

1.10 First Quarter – 2010:

The first quarter expenditures do not differ significantly from other quarters with the exception of the significant increase in travel, conferences, and meetings, which is a direct result of the "Outreach Program" aimed at current shareholders and potential investors as discussed in Section 1.4. In addition, the Company reported a stock based compensation expense of \$1,710,564 during the period (2009 - \$541,432).

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 Annual Financial Statements.

1.13 Changes in Accounting Policies

IFRS Changeover Plan

The Company's management continues to study IFRS technical issues in order to understand the possible significant changes to the Company's financial reporting. Management understands that these IFRS issues will require that the interim and annual financial statements of the Company provide more significant disclosures and different statement format presentation both during the transition to IFRS and for the future periods after the adoption of IFRS.

During the year end audit committee meeting held on March 29, 2010, the committee recommended that management meet with Company's auditors this summer to start work on the restatement of the financial statements for comparative purposes. The Company is currently in the exploration stage with regard to its properties and does not believe there are complex accounting or infrastructure issues that need to be resolved. Accordingly management believes that this timeframe is sufficient to allow an orderly transition to IFRS. Management will ensure that additional discussion is included in the MD&A on a going-forward basis. Please refer to Note 2 of the Annual Financial Statements.

Adoption of new CICA Handbook standards on January 1, 2011

The Company does not intend to early adopt the new sections of the CICA Handbook relating to business combinations, consolidated financial statements or non-controlling interests because the Company will be reporting under IFRS from January 1, 2011. Therefore, the Company does not anticipate that these new sections will have an impact on the financial statements.

1.14 Financial and Other Instruments

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

In addition, during the period, the Company secured a loan facility for US\$1,421,500 bearing simple interest at 6% per annum and maturing on May 16, 2011. This loan is secured by all assets of the Company excluding the mineral properties. The loan was used to post the reclamation bond required pursuant to the Bureau of Land Management permits for the underground development program focused on bulk sampling.

As at March 31, 2010, the Company has posted an additional non-interest bearing bond in the amount of \$1,249,835 (US\$1,230,637) bringing the total bonds to \$1,429,901 (US\$1,407,937). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost, adjusted for current exchange rates

1.15 Other

1.15.1 Share Capital

Disclosure of Outstanding Share Capital (May 13, 2010)

	Number	Book Value	Contributed Surplus
Common Shares	32,269,089	\$38,350,368	\$4,163,695

Summary of incentive stock options: (May 13, 2010)

Number of Shares	Expiry Date	Exercise Price
125,000	June 10, 2010	\$1.05
775,000	September 17, 2013	\$0.86
660,000	March 2, 2014	\$1.00
1,300,000	February 10, 2020	\$1.25
200,000	March 18, 2012	\$1.25
50,000	March 18, 2011	\$1.25
3,110,000		

Summary of warrants outstanding: (May 13, 2010)

Number of Shares	Expiry Date	Exercise Price
Nil	-	-

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 three months ended March 31, 2010. 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

No subsequent events to report

1.15.5 Contingency

On July 20, 2009 the Company entered into a letter agreement (the “Letter Agreement”) with Paramount Gold and Silver Corp. (“Paramount”) setting out the principal terms upon which Paramount would acquire, pursuant to a plan of arrangement, all of the outstanding shares of the Company on the basis of 1.45 shares of the Paramount common stock for each of common share of the Company. On September 24, 2009, the Company terminated the Letter Agreement pursuant to its terms. The Company announced the termination in a news release on September 25, 2009. In its news release, the Company specified the reasons for the termination.

On September 30, 2009, Paramount commenced an action in the Supreme Court of British Columbia seeking payment of a break fee in the amount of US\$2.85 million, and unspecified damages for breach of contract, malicious falsehood and defamation. The Company denies that it has any liability to Paramount, and intends to mount an aggressive, vigorous defence against Paramount’s claims. As of the date of this report, the Company’s legal counsel is preparing the defence and counterclaim. No accrual has been made in the financial statements as the resolution is not considered to be determinable.

1.15.6 Additional information

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