

**Klondex Mines Ltd.**

**Interim Consolidated Financial Statements**

**March 31, 2006**

**(Unaudited)**

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**Klondex Mines Ltd.****Consolidated Financial Statements (Unaudited)**

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**March 31, 2006**

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## UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by  
the Canadian Securities Administrators

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### NOTICE TO READER

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The interim balance sheet as at March 31, 2006 and the interim statement of loss and deficit, and the interim statement of cash flows for the three month period then ended are the responsibility of the Company's management.

The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian Generally Accepted Accounting Principles.

***/s/ William J. Solloway***

William J. Solloway, Director  
Vancouver, BC Canada  
May 19, 2006

***/s/ Fred Baker***

Fred Baker  
Vancouver, BC Canada  
May 19, 2006

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

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	<b>March 31, 2006 (Unaudited)</b>	<b>December 31, 2005 (Audited)</b>
<b>Assets</b>		
<b>Current</b>		
Cash and equivalents	\$ 9,013,440	\$ 2,892,695
Marketable securities (note 3)	459,404	459,404
Prepaid expenses	14,658	18,017
Accounts receivable	42,903	31,237
	<b>9,530,405</b>	<b>3,401,353</b>
Rent deposit (note 4)	16,375	16,375
Property and equipment (note 5)	48,954	50,271
Mineral properties and related deferred expenses (note 6)	6,029,042	5,703,605
Reclamation bonds (note 7)	98,956	98,956
	<b>\$ 15,723,732</b>	<b>\$ 9,270,560</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 104,266	\$ 400,052
Due to directors (note 12)	11,169	12,016
Asset retirement obligation (note 7)	45,116	45,116
	<b>160,551</b>	<b>457,184</b>
Deferred lease inducement (note 14)	13,119	13,938
	<b>172,670</b>	<b>471,122</b>
<b>Shareholders' Equity</b>		
Share capital (note 8)	21,240,495	14,431,926
Contributed surplus (notes 8 and 9)	1,496,483	1,318,766
Deficit	(7,186,916)	(6,951,254)
	<b>15,550,062</b>	<b>8,799,438</b>
	<b>\$ 15,723,732</b>	<b>\$ 9,270,560</b>

Approved by the Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

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<b>For the three months ended March 31,</b>	<b>2006</b>	<b>2005</b>
<b>Administrative Expenses</b>		
Amortization	\$ 3,303	\$ 2,810
Consulting fees (note 12)	43,080	21,101
Foreign exchange	(308)	11,484
Legal, audit and accounting	31,605	13,566
Management fees (note 12)	25,116	25,738
Office and miscellaneous	11,126	28,212
Telephone	4,527	4,113
Transfer agent and regulatory fees	7,828	6,942
Travel, accommodation, meetings	112,618	93,601
Interest earned	(3,233)	(2,319)
	<b>235,662</b>	<b>205,248</b>
<b>Loss for the period</b>	<b>(235,662)</b>	<b>(205,248)</b>
<b>Deficit, beginning of period</b>	<b>(6,951,254)</b>	<b>(5,514,121)</b>
<b>Deficit, end of period</b>	<b>\$ (7,186,916)</b>	<b>\$ (5,719,369)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>17,409,928</b>	<b>15,651,317</b>

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

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**Nevada Properties**

	<b>For the three months ended March 31, 2006 (Unaudited)</b>	For the year ended December 31, 2005 (Audited)
Balance, beginning of period	<b>\$ 5,703,605</b>	\$ 2,902,241
Acquisition of land	-	210,352
Assays and core costs	<b>110,038</b>	236,707
Consulting	<b>76,983</b>	312,634
Drilling	<b>118,051</b>	1,825,328
Field supplies and equipment	<b>3,445</b>	24,448
Lease payments, taxes and royalties	-	24,488
Legal	<b>981</b>	9,726
Maintenance fees	-	77,116
Miscellaneous	<b>6,923</b>	25,235
Site visits	<b>9,016</b>	55,330
Current period expenditures	<b>325,437</b>	2,801,364
<b>Balance, end of period</b>	<b>\$ 6,029,042</b>	\$ 5,703,605

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

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<b>For the three months ended March 31,</b>	<b>2006</b>	<b>2005</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	\$ (235,662)	\$ (205,248)
Items not involving cash		
Amortization	3,303	2,810
Deferred lease inducement realized	(819)	-
Foreign exchange	6	(6)
	<b>(233,172)</b>	<b>(202,444)</b>
<b>Change in non-cash working capital items</b>		
Accounts receivable	(11,666)	(9,096)
Prepaid expenses	3,359	(19,792)
Accounts payable	(2,478)	(10,790)
	<b>(243,957)</b>	<b>(242,122)</b>
<b>Financing activities</b>		
Issue of share capital, net	7,561,861	-
Share issue cost, cash	(575,575)	-
Advances from (repayment to) directors	(847)	(72,227)
	<b>6,985,439</b>	<b>(72,227)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(1,992)	(35,187)
Deferred exploration and development expenditures	(618,745)	(771,756)
	<b>(620,737)</b>	<b>(806,943)</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>6,120,745</b>	<b>(1,121,292)</b>
<b>Cash and equivalents, beginning of period</b>	<b>2,892,695</b>	<b>5,974,755</b>
<b>Cash and equivalents, end of period</b>	<b>\$ 9,013,440</b>	<b>\$ 4,853,463</b>
<b>Supplemental Cash Flow Information (note 10)</b>		
The company had the following cash transactions:		
Interest received	\$ 3,233	\$ 2,319
Income taxes paid	-	-

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# **Klondex Mines Ltd.**

## **Notes to the Consolidated Financial Statements (Unaudited)**

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**March 31, 2006 and 2005**

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### **1. Nature of Operations**

The Company is in the business of owning, acquiring, exploiting, exploring 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 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, 2005 for additional information.

### **3. Marketable securities**

During fiscal 2005 the Company purchased convertible debentures of the Retirement Residences REIT with a face value of \$500,000 for a cost of \$500,000. The convertible debentures bear interest at 5.5%, paid semi-annually and are convertible at the option of the holder at any time up to the maturity date of March 31, 2015 at a price of \$11.35 per unit. At March 31, 2006 the market value of the debentures was \$487,450.

The company also holds 100 shares of Coeur D'Alene Mines Corporation with a book value of \$475 and a market value of \$763.

### **4. Rent Deposit**

As part of the lease agreement, the Company paid the last three months of the fourth year and the last four months of the fifth year 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 Consolidated Financial Statements (Unaudited)**

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**March 31, 2006 and 2005**

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**5. Property and Equipment**

	<b>March 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Computer equipment	\$ 20,748	\$ (8,213)	\$ 12,535
Telephone equipment	1,376	(653)	723
Furniture and fixtures	25,544	(8,465)	17,079
Leasehold improvements	24,736	(6,119)	18,617
	<b>\$ 72,404</b>	<b>\$ (23,450)</b>	<b>\$ 48,954</b>

  

	<b>December 31, 2005</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Computer equipment	\$ 20,748	\$ (7,571)	\$ 13,177
Telephone equipment	1,376	(615)	761
Furniture and fixtures	23,552	(7,076)	16,476
Leasehold improvements	24,736	(4,879)	19,857
	<b>\$ 70,412</b>	<b>\$ (20,141)</b>	<b>\$ 50,271</b>

**6. 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 the 2003 fiscal year 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 the 2002 fiscal year, 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 the 2004 fiscal year, 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 the 2005 fiscal year, the Company acquired additional blocks of land, which totaled 13 acres for \$65,686 (US\$53,594); and subsequently an additional 100 acres were acquired for \$53,344 (US\$43,415). These new acquisitions bring the total acreage to 5,185 acres.

**b) Maggie Creek, Elko County, Nevada**

The Company has a 66.66% undivided interest in 48 claims (1920 acres) situated in sections 8, 16 and 20 in the Maggie Creek area.

**c) Corral Canyon, Lander County, Nevada**

The Company has a 100% ownership interest in 58 claims (2,520 acres) in Corral Canyon, Lander County, Nevada.

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

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**March 31, 2006 and 2005**

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**6. Mineral Property and Related Deferred Exploration Expenses (continued)****d) Woodtick claims, Lander County, Nevada**

The Company has a 100% ownership interest in these 26 claims (1,080 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.

**e) Hot Point Springs, Lander County, Nevada**

The Company has a 100% ownership interest in 39 claims (1,680 acres) situated about 6 miles east of the town of Crescent Valley. They are in a basalt-andersite setting.

**f) Reef claims, Churchill county, Nevada**

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

**7. Asset Retirement Obligation**

Included in the carrying value of the mineral properties is \$45,116 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities during fiscal 2004 on the Fire Creek properties. The fair value of the liability \$45,116 was determined to be equal to the estimated drill well site remediation costs of as it is assumed that remediation would commence within six months of year end. During the fiscal year December 31, 2004 the Company has posted non-interest bearing bonds of \$49,400 (US\$41,003) with the Bureau of Land Management in the State of Nevada as security for these obligations. At December 31, 2005, the Company posted additional non-interest bearing bonds of \$49,556 (US\$42,500).

**8. Share Capital**

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

**b) Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2004	15,651,317	\$ 13,520,824	\$ 744,766
Issued for cash			
Exercise of warrants	1,500,000	900,000	-
Share issue costs			
Refund of 2004 legal fees	-	11,102	-
Stock based compensation	-	-	574,000
<b>Balance, December 31, 2005</b>	<b>17,151,317</b>	<b>14,431,926</b>	<b>1,318,766</b>

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

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**March 31, 2006 and 2005**

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

	Shares	Amount	Contributed Surplus
<b>Balance, December 31, 2005</b>	<b>17,151,317</b>	<b>\$ 14,431,926</b>	<b>\$ 1,318,766</b>
Issued for cash			
Private placement	3,250,000	7,312,500	-
Exercise of options	110,000	95,500	-
Exercise of warrants	5,000	11,750	-
Exercise of agents' warrants	60,473	142,111	-
Fair value of options exercised	-	84,400	(84,400)
Fair value of agents' warrants exercised	-	58,658	(58,658)
	3,425,473	7,704,919	(143,058)
Share issue costs			
Commission	-	(511,875)	-
Agents' warrants	-	(320,775)	320,775
TSX filing fees	-	(32,000)	-
Legal fees & others	-	(31,700)	-
		(896,350)	320,775
Total increase for the period	3,425,473	6,808,569	177,717
<b>Balance, March 31, 2006</b>	<b>20,576,790</b>	<b>\$ 21,240,495</b>	<b>\$ 1,496,483</b>

**c) Private placement**

On March 29, 2006, the Company announced that it had completed the private placement announced on March 9, 2006. The Company issued 3,250,000 units at \$2.25 for gross proceeds of \$7,312,500. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 18 months from closing at an exercise price of \$3.00 per share. The Company has the right to accelerate the expiry of the warrants if the common shares of the Company close at or above \$4.00 for a minimum of 20 consecutive trading days.

The agents received a total cash commission of \$511,875 and 227,500 agents' warrants from the sale of the units. Each agent warrant will be exercisable to purchase one unit for a period of 18 months from closing at a price of \$2.25 per unit.

The fair value of the agents' warrants was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

Dividend rate	0.00 %	Expected annual volatility	98%
Risk-free interest rate	3.94 %	Strike price	\$ 2.25
Expected life	18 Months	Spot price	\$ 2.72

Using the above assumptions, the fair value of each warrant granted is \$1.41. Share issue costs of \$320,775 were recorded for the three months ended March 31, 2006.

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

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**March 31, 2006 and 2005**

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**8. Share Capital (continued)****d) Options outstanding**

A summary of the Company's outstanding stock options as of March 31, 2006 and 2005 and the changes during the year then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding and exercisable at December 31, 2004	984,750	\$ 0.65
Options granted	580,381	1.05
Options exercised	-	-
<b>Outstanding and exercisable at December 31, 2005</b>	<b>1,565,131</b>	<b>0.80</b>
Options granted	-	-
Options exercised	(110,000)	0.87
	<b>1,455,131</b>	<b>\$ 0.79</b>

At March 31, 2006, there were 1,455,131 stock options outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

Number of Shares	Exercise Price	Expiry Date
784,750	\$ 0.65	November 28, 2008
150,000	\$ 0.65	June 29, 2009
520,381	\$ 1.05	June 10, 2010
<b>1,455,131</b>		

**e) Warrants outstanding**

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

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2004	3,385,300	\$ 1.54
Warrants exercised	(1,500,000)	0.60
Warrants expired	(10,000)	1.25
<b>Outstanding and exercisable at December 31, 2005</b>	<b>1,875,300</b>	<b>2.29</b>
Warrants granted	1,625,000	3.00
Agents' warrants granted	227,500	2.25
Warrants exercised	(5,000)	2.35
Agents' warrants exercised	(60,473)	2.35
<b>Outstanding and exercisable at March 31, 2006</b>	<b>3,662,327</b>	<b>\$ 2.63</b>

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

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**March 31, 2006 and 2005**

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**8. Share Capital (continued)****e) Warrants outstanding (continued)**

At March 31, 2006, there were 3,662,327 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

Number of Shares	Exercise Price	Expiry Date
1,809,827	\$ 2.35	June 29, 2009
1,625,000	\$ 3.00	June 10, 2010
227,500	\$ 2.25	September 7, 2007
<b>3,662,327</b>		

**9. Stock Based Compensation**

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the Plan will have a maximum term of five years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under TSX Venture Exchange policies), or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. Options granted under the plan vest immediately, except for consultants conducting investor relation activities who will become vested with the right to exercise one-fourth of the option upon the conclusion of each three month period subsequent to the date of the grant of the option.

No employee stock options were granted during the periods ended March 31, 2006 and 2005.

**10. Non Cash Transactions**

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

<b>March 31,</b>	<b>2006</b>	<b>2005</b>
Financing activity – warrants issued	\$ 320,775	\$ -

**11. 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 March 31, 2006 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 271,107
Marketable securities	\$ 475
Reclamation bonds	\$ 83,503
Accounts payable	\$ 24,880
Due to Directors	\$ 9,566

At March 31, 2006 US dollar amounts were converted at a rate of \$1.16757 Canadian dollars to \$1.00 US dollar.

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

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**March 31, 2006 and 2005**

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**11. Financial Instruments (continued)****b) Credit risk**

At March 31, 2006 the Company held cash treasury bills and marketable securities of \$7,913,484 (2005 - \$2,652,055) 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.

**12. Related Party Transactions**

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

- a) During the period, the Company paid consulting fees of \$21,000 (2005 - \$16,500) to 2 companies controlled by each of a director and an officer; and mineral property services of \$40,816 (2005 - \$16,500) paid to an officer and a company controlled by a director.
- b) During the period, the Company incurred management fees of \$18,189 (2005 - \$18,384) to the President.
- c) During the period, the Company incurred management fees of \$6,926 (2005 - \$7,354) and rent of \$1,732 (2005 - \$1,826) to a director of the wholly-owned subsidiary.
- d) Amounts owing to directors and officers of the parent company and the wholly owned subsidiary of \$11,169 (2005 - \$5,895) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

**13. Segmented Information**

<b>March 31, 2006</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Expenses</b>	<b>170,273</b>	<b>65,389</b>	<b>235,662</b>
<b>Loss for the period</b>	<b>\$ (170,273)</b>	<b>\$ (65,389)</b>	<b>\$ (235,662)</b>
<b>Identifiable assets</b>	<b>\$ 9,427,605</b>	<b>\$ 6,296,127</b>	<b>\$ 15,723,732</b>

<b>March 31, 2005</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Expenses</b>	<b>96,201</b>	<b>109,047</b>	<b>205,248</b>
<b>Loss for the period</b>	<b>\$ (96,201)</b>	<b>\$ (109,047)</b>	<b>\$ (205,248)</b>
<b>Identifiable assets</b>	<b>\$ 5,865,195</b>	<b>\$ 2,798,716</b>	<b>\$ 8,663,911</b>

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

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**March 31, 2006 and 2005**

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**14. Commitments**

As at March 31, 2006, 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 five years are as follows:

2006	\$ 16,042
2007	\$ 16,042
2008	\$ 16,042
2009	\$ 16,042
2010	\$ 4,011

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