

**Klondex Mines Ltd.**

**Interim Consolidated Financial Statements**

**June 30, 2006**

**(Unaudited)**

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

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**June 30, 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 June 30, 2006 and the interim statement of loss and deficit, and the interim statement of cash flows for the six 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  
August 22, 2006

***/s/ Fred Baker***

Fred Baker, Director  
Vancouver, BC Canada  
August 22, 2006

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

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	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and equivalents	\$ 11,753,766	\$ 2,892,695
Marketable securities (note 3)	459,382	459,404
Prepaid expenses	13,082	18,017
Accounts receivable	53,992	31,237
Due from directors (note 12)	12,338	-
	<b>12,292,560</b>	<b>3,401,353</b>
<b>Rent deposit</b> (note 4)	<b>16,375</b>	<b>16,375</b>
<b>Property and equipment</b> (note 5)	<b>45,600</b>	<b>50,271</b>
<b>Mineral properties and related deferred expenses</b> (note 6)	<b>7,217,353</b>	<b>5,703,605</b>
<b>Reclamation bonds</b> (note 7)	<b>98,956</b>	<b>98,956</b>
	<b>\$ 19,670,844</b>	<b>\$ 9,270,560</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 75,906	\$ 400,052
Due to directors (note 12)	-	12,016
Asset retirement obligation (note 7)	98,956	45,116
	<b>174,862</b>	<b>457,184</b>
<b>Deferred lease inducement</b> (note 14)	<b>12,301</b>	<b>13,938</b>
	<b>187,163</b>	<b>471,122</b>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 8)	<b>25,553,743</b>	<b>14,431,926</b>
<b>Contributed surplus</b> (notes 8 and 9)	<b>1,304,072</b>	<b>1,318,766</b>
<b>Deficit</b>	<b>(7,374,134)</b>	<b>(6,951,254)</b>
	<b>19,483,681</b>	<b>8,799,438</b>
	<b>\$ 19,670,844</b>	<b>\$ 9,270,560</b>

Approved by the Directors:

/s/ William J. Solloway Director

/s/ Fred Baker Director

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

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	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
<b>Administrative Expenses</b>				
Amortization	\$ 3,287	\$ 659	\$ 6,590	\$ 3,469
Consulting fees	30,630	30,899	73,710	52,000
Foreign exchange (gain)	26,152	13,002	25,844	24,486
Legal, audit and accounting	24,995	27,189	56,600	40,755
Management fees	25,639	26,206	50,755	51,944
Office and miscellaneous	13,013	11,710	24,139	39,922
Shareholders communication	53,168	20,300	100,118	46,408
Telephone	3,336	9,003	7,863	13,116
Transfer agent and regulatory fees	7,053	5,294	14,881	12,236
Travel, conferences and meetings	63,037	30,422	128,705	97,915
Interest earned	(63,092)	(987)	(66,325)	(3,306)
	<b>187,218</b>	<b>173,697</b>	<b>422,880</b>	<b>378,945</b>
<b>Loss for the period</b>	<b>(187,218)</b>	<b>(173,697)</b>	<b>(422,880)</b>	<b>(378,945)</b>
<b>Deficit, beginning of period</b>	<b>(7,186,916)</b>	<b>(5,719,369)</b>	<b>(6,951,254)</b>	<b>(5,514,121)</b>
<b>Deficit, end of period</b>	<b>\$ (7,374,134)</b>	<b>\$ (5,893,066)</b>	<b>\$ (7,374,134)</b>	<b>\$ (5,893,066)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>21,318,643</b>	<b>15,651,317</b>	<b>19,373,299</b>	<b>15,651,317</b>

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

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**Nevada Properties**

	<b>For the six months ended June 30, 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	<b>56,006</b>	210,352
Assays and core costs	<b>165,890</b>	236,707
Consulting - geological	<b>176,455</b>	312,634
Drilling	<b>959,649</b>	1,825,328
Field supplies and equipment	<b>21,506</b>	24,448
Geophysics	<b>33,603</b>	-
Lease payments, taxes and royalties	<b>1,734</b>	24,488
Legal	<b>941</b>	9,726
Maintenance fees	-	77,116
Miscellaneous	<b>18,424</b>	25,235
Site reclamation	<b>53,840</b>	-
Site visits	<b>25,700</b>	55,330
Current period expenditures	<b>1,513,748</b>	2,801,364
<b>Balance, end of period</b>	<b>\$ 7,217,353</b>	\$ 5,703,605

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

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	Three months ended		Six months ended	
	June 30,	2005	June 30,	2005
	2006		2006	
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss for the period	\$ (187,218)	\$ (173,697)	\$ (422,880)	\$ (378,945)
Items not involving cash				
Amortization	3,287	659	6,590	3,469
Deferred lease inducement realized	(818)	-	(1,637)	-
Foreign exchange - unrealized	16	(6)	22	(12)
	(184,733)	(173,044)	(417,905)	(375,488)
<b>Change in non-cash working capital</b>				
Accounts receivable	(11,089)	3,594	(22,755)	(5,502)
Prepaid expenses	1,516	(2,519)	4,935	(22,311)
Accounts payable	(313,551)	(29,401)	(316,029)	(40,191)
	(507,797)	(201,370)	(751,754)	(443,492)
<b>Financing activities</b>				
Issue of share capital	4,127,889	-	11,689,750	-
Share issue cost, cash	(6,979)	-	(582,627)	-
Due to related party	(23,507)	(12,571)	(24,354)	(84,798)
	4,097,403	(12,571)	(11,082,769)	(84,798)
<b>Investing activities</b>				
Reclamation bond	-	(52,220)	-	(52,220)
Purchase of property & equipment	-	(520)	(1,919)	(35,707)
Deferred exploration and development	(849,280)	(255,345)	(1,468,025)	(1,027,101)
	(849,280)	(308,085)	(1,469,944)	(1,115,028)
<b>Net increase (decrease) in cash and equivalents</b>	<b>2,740,326</b>	<b>(522,026)</b>	<b>8,861,071</b>	<b>(1,643,318)</b>
<b>Cash and equivalents, beginning of period</b>	<b>9,013,440</b>	<b>4,853,463</b>	<b>2,892,695</b>	<b>5,974,755</b>
<b>Cash and equivalents, end of period</b>	<b>\$ 11,753,766</b>	<b>\$ 4,331,437</b>	<b>\$ 11,753,766</b>	<b>\$ 4,331,437</b>

**Supplemental Cash Flow Information (note 10)**

The company had the following cash transactions:

Interest received	\$ 63,092	\$ 987	\$ 66,325	\$ 3,306
Income taxes paid	-	-	-	-

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# **Klondex Mines Ltd.**

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

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**June 30, 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 June 30, 2006 the market value of the debentures was \$451,250 and a book value of \$458,850.

The company also holds 100 shares of Coeur D'Alene Mines Corporation with a book value of \$475 and a market value of \$532.

### **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 Interim Consolidated Financial Statements (Unaudited)**

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**June 30, 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	\$ (8,833)	\$ 11,915
Telephone equipment	1,376	(687)	689
Furniture and fixtures	25,544	(9,925)	15,619
Leasehold improvements	24,736	(7,359)	17,377
	<b>\$ 72,404</b>	<b>\$ (26,804)</b>	<b>\$ 45,600</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 Interim Consolidated Financial Statements (Unaudited)**

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**June 30, 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.

**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 \$98,956 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities during fiscal 2004 (\$45,116) and during the six month-ended June 20, 2006 (\$53,840) 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 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 Interim Consolidated Financial Statements (Unaudited)**

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**June 30, 2006 and 2005**

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

	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	180,000	147,000	-
Exercise of warrants	1,570,550	3,690,793	-
Exercise of agents' warrants	229,556	539,457	-
Fair value of options exercised	-	112,800	(112,800)
Fair value of agents' warrants exercised	-	222,669	(222,669)
	5,230,106	12,025,219	(335,469)
Share issue costs			
Commission	-	(511,875)	-
Agents' warrants	-	(320,775)	320,775
TSX filing fees	-	(32,000)	-
Legal fees & others	-	(38,752)	-
		(903,402)	320,775
Total increase for the period	5,230,106	11,121,817	(14,694)
<b>Balance, June 30, 2006</b>	<b>22,381,423</b>	<b>\$ 25,553,743</b>	<b>\$1,304,072</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 six months ended June 30, 2006.

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

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**June 30, 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 June 30, 2006 and 2005 and the changes during the periods 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	(180,000)	0.82
<b>Outstanding and exercisable at June 30, 2006</b>	<b>1,385,131</b>	<b>\$ 0.79</b>

At June 30, 2006, there were 1,385,131 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
759,750	\$ 0.65	November 28, 2008
120,000	\$ 0.65	June 29, 2009
505,381	\$ 1.05	June 10, 2010
<b>1,385,131</b>		

**e) Warrants outstanding**

A summary of the Company's outstanding share purchase warrants at June 30, 2006 and 2005 and the changes during the periods 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>2.35</b>
Warrants exercised	(1,570,550)	2.35
Warrants expired	(74,450)	2.35
Warrants granted	1,625,000	3.00
Agents' warrants exercised	(229,556)	2.35
Agents' warrants expired	(744)	2.35
Agents' warrants granted	227,500	2.25
<b>Outstanding and exercisable June 30, 2006</b>	<b>1,852,500</b>	<b>\$ 2.91</b>

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

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**June 30, 2006 and 2005**

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

At June 30, 2006, there were 1,852,500 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
1,625,000	\$ 3.00	September 28, 2007
227,500	\$ 2.25	September 28, 2007
<b>1,852,500</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 June 30, 2006 and 2005.

**10. Non Cash Transactions**

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

June 30,	2006	2005
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 June 30, 2006 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 125,445
Marketable securities	\$ 475
Reclamation bonds	\$ 83,503
Accounts payable	\$ 18,324
Due from directors	\$ 11,015
Asset retirement obligation	\$ 37,487

At June 30, 2006 US dollar amounts were converted at a rate of \$1.112011 Canadian dollars to \$1.00 US dollar.

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# Klondex Mines Ltd.

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

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June 30, 2006 and 2005

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### 11. Financial Instruments (continued)

#### b) Credit risk

At June 30, 2006 the Company held cash treasury bills and marketable securities of \$11,462,221 (2005 - \$4,051,245) 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 **\$43,000** (2005 - \$41,000) to 2 companies controlled by each of a director and an officer; and mineral property services of **\$89,591** (2005 - \$70,681) paid to an officer and a company controlled by a director.
- b) During the period, the Company incurred management fees of **\$37,148** (2005 - \$37,102) to the President.
- c) During the period, the Company incurred management fees of **\$13,607** (2005 - \$14,841) and rent of **\$3,402** (2005 - \$3,698) to a director of the wholly-owned subsidiary.
- d) Amounts owing from directors and officers of the parent company and the wholly owned subsidiary of **\$12,338** (2005 - \$6,676) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

### 13. Segmented Information

June 30, 2006	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	247,051	175,829	422,880
Loss for the period	\$ (247,051)	\$ (175,829)	\$ (422,880)
Capital assets	\$ 234,407	\$ 7,028,546	\$ 7,262,953

June 30, 2005	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	197,317	181,628	378,945
Loss for the period	\$ (197,317)	\$ (181,628)	\$ (378,945)
Capital assets	\$ 98,967	\$ 3,868,343	\$ 3,967,310

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

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**June 30, 2006 and 2005**

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**14. Commitments**

As at June 30, 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	\$ 8,021
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.

**15. Subsequent Events**

Subsequent to the quarter ended June 30, 2006 the Company granted 645,000 incentive stock options to directors, officers and consultants at an exercise price of \$2.35 per share expiring on July 17, 2011.

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

Dividend rate	0.00 %	Expected annual volatility	98%
Risk-free interest rate	4.30 %	Strike price	\$ 2.35
Expected life	5 Years	Spot price	\$ 2.00

Using the above assumptions, the fair value of each incentive stock option is \$1.45. Stock based compensation of \$935,250 will be recorded and credited to contributed surplus.