

**Klondex Mines Ltd.**

**Interim Consolidated Financial Statements**

**September 30, 2006**

**(Unaudited)**

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

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**September 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 September 30, 2006 and the interim statement of loss and deficit, and the interim statement of cash flows for the nine 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  
November 13, 2006

***/s/ Fred Baker***

Fred Baker, Director  
Vancouver, BC Canada  
November 13, 2006

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

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	<b>September 30, 2006 (Unaudited)</b>	December 31, 2005 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and equivalents	\$ 10,296,185	\$ 2,892,695
Marketable securities (note 3)	459,379	459,404
Prepaid expenses	21,963	18,017
Accounts receivable	36,343	31,237
Due from related parties (note 12)	12,272	-
	<b>10,826,142</b>	3,401,353
Rent deposit (note 4)	16,375	16,375
Property and equipment (note 5)	46,264	50,271
Mineral properties and related deferred expenses (note 6)	8,742,045	5,703,605
Reclamation bonds (note 7)	98,956	98,956
	<b>\$ 19,729,782</b>	<b>\$ 9,270,560</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 84,371	\$ 400,052
Due to related parties (note 12)	-	12,016
Asset retirement obligation (note 7)	98,956	45,116
	<b>183,327</b>	457,184
Deferred lease inducement (note 14)	11,482	13,938
	<b>194,809</b>	471,122
<b>Shareholders' Equity</b>		
Share capital (note 8)	25,777,601	14,431,926
Contributed surplus (notes 8 and 9)	2,157,244	1,318,766
Deficit	<b>(8,399,872)</b>	<b>(6,951,254)</b>
	<b>19,534,973</b>	8,799,438
	<b>\$ 19,729,782</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		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>Administrative Expenses</b>				
Amortization	\$ 3,496	\$ 4,301	\$ 10,086	\$ 7,770
Consulting fees	50,630	28,829	124,340	80,829
Foreign exchange (gain)	15,888	16,948	41,732	41,434
Legal, audit and accounting	30,323	14,844	86,923	55,599
Management fees and salaries	30,577	25,108	81,332	77,052
Office and miscellaneous	25,966	20,502	50,105	60,424
Shareholders communication	45,683	2,155	145,801	48,563
Stock-based compensation	935,250	-	935,250	-
Telephone	3,119	2,965	10,982	16,081
Transfer agent and regulatory fees	2,885	2,252	17,766	14,488
Travel, conferences and meetings	36,710	61,311	165,415	159,226
Interest earned	(154,789)	(233)	(221,114)	(3,539)
	<b>1,025,738</b>	<b>178,982</b>	<b>1,448,618</b>	<b>557,927</b>
<b>Loss for the period</b>	<b>(1,025,738)</b>	<b>(178,982)</b>	<b>(1,448,618)</b>	<b>(557,927)</b>
<b>Deficit, beginning of period</b>	<b>(7,374,134)</b>	<b>(5,893,066)</b>	<b>(6,951,254)</b>	<b>(5,514,121)</b>
<b>Deficit, end of period</b>	<b>\$ (8,399,872)</b>	<b>\$ (6,072,048)</b>	<b>\$ (8,399,872)</b>	<b>\$ (6,072,048)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.05)</b>	<b>\$ (0.01)</b>	<b>\$ (0.07)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of shares outstanding</b>	<b>21,938,051</b>	<b>15,651,317</b>	<b>20,413,495</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 nine months ended September 30, 2006 (Unaudited)</b>	For the year ended December 31, 2005 (Audited)
Balance, beginning of period	\$ 5,703,605	\$ 2,902,241
Acquisition of land	55,706	210,352
Assays and core costs	278,206	236,707
Consulting - geological	332,961	312,634
Drilling	2,005,452	1,825,328
Field supplies and equipment	41,506	24,448
Geophysics	117,014	-
Lease payments, taxes and royalties	21,838	24,488
Legal	941	9,726
Maintenance fees	64,828	77,116
Miscellaneous	24,670	25,235
Site reclamation	53,840	-
Site visits	41,478	55,330
Current period expenditures	3,038,440	2,801,364
<b>Balance, end of period</b>	<b>\$ 8,742,045</b>	<b>\$ 5,703,605</b>

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

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	Three months ended September 30, 2006		Nine months ended September 30, 2006	
		2005		2005
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss for the period	\$ (1,025,738)	\$ (178,982)	\$ (1,448,618)	\$ (557,927)
Items not involving cash				
Amortization	3,496	4,301	10,086	7,770
Deferred lease inducement realized	(819)	-	(2,456)	-
Stock based compensation	935,250	-	935,250	-
Foreign exchange - unrealized	3	28	25	16
	(87,808)	(174,653)	(505,713)	(550,141)
<b>Change in non-cash working capital</b>				
Accounts receivable	17,649	(5,016)	(5,106)	(10,518)
Prepaid expenses	(8,881)	(8,762)	(3,946)	(31,073)
Accounts payable	45,683	(18,541)	(270,346)	(58,732)
	(33,357)	(206,972)	(785,111)	(650,464)
<b>Financing activities</b>				
Issue of share capital	141,780	11,102	11,831,530	11,102
Share issue cost, cash	-	-	(582,627)	-
Due to (from) related parties	66	17,881	(24,288)	(66,917)
	141,846	28,983	11,224,615	(55,815)
<b>Investing activities</b>				
Reclamation bond	-	-	-	(52,220)
Marketable securities	-	(24,882)	-	(24,882)
Purchase of property & equipment	(4,160)	(2,409)	(6,080)	(38,116)
Deferred exploration	(1,561,910)	(561,624)	(3,029,935)	(1,588,725)
	(1,566,070)	(588,915)	(3,036,014)	(1,703,943)
<b>Net increase (decrease) in cash and equivalents</b>	<b>(1,457,581)</b>	<b>(766,904)</b>	<b>7,403,490</b>	<b>(2,410,222)</b>
<b>Cash and equivalents, beginning of period</b>	<b>11,753,766</b>	<b>4,331,437</b>	<b>2,892,695</b>	<b>5,974,755</b>
<b>Cash and equivalents, end of period</b>	<b>\$ 10,296,185</b>	<b>\$ 3,564,533</b>	<b>\$ 10,296,185</b>	<b>\$ 3,564,533</b>

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

The company had the following cash transactions:

Interest received	\$ 154,789	\$ 233	\$ 221,114	\$ 3,539
Income taxes paid	-	-	-	-

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# **Klondex Mines Ltd.**

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

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**September 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 all located in the State of Nevada, USA.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the company is expending its best efforts in this regard, the outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the company be unable to continue in business.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof.

### **2. Financial Statement Presentation**

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the company's annual audited financial statements for the year ended December 31, 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 September 30, 2006 the market value of the debentures was \$480,050 and 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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**September 30, 2006 and 2005**

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**5. Property and Equipment**

	<b>September 30, 2006</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Computer equipment	\$ 24,912	\$ (9,667)	\$ 15,245
Telephone equipment	1,376	(722)	654
Furniture and fixtures	25,509	(11,280)	14,229
Leasehold improvements	24,736	(8,600)	16,136
	<b>\$ 76,533</b>	<b>\$ (30,269)</b>	<b>\$ 46,264</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 130 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 (960 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 42 claims (840 acres) in Corral Canyon, Lander County, Nevada.

**September 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 (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.

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

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley.

During the period, the Company negotiated the principal terms of a 10 year lease of the Hotsprings Point Property to Vasquir Mines Inc. Under the negotiated terms, Vasquir Mines would lease the property for an initial cash payment and share issuance, annual cash payments and exploration expenditures, and a scaled net smelter return royalty of a minimum of 3% to a maximum of 10%.

Despite the execution of a form of lease agreement on August 1, 2006, no consideration has yet passed and the terms of the lease arrangements have been the subject of ongoing discussions. The Company is concerned that a number of terms set out in the proposed lease may be uncertain, and had requested that clarifying revisions be made to the lease. See Note 15 – Subsequent Events.

**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 nine months-ended September 30, 2006 (\$53,840) on the Fire Creek properties. The fair value of the liability \$45,116 was determined to be equal to the estimated 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 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).

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

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**September 30, 2006 and 2005**

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**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>
Issued for cash			
Private placement	3,250,000	7,312,500	-
Exercise of options	280,000	212,000	-
Exercise of warrants	1,570,550	3,690,793	-
Exercise of agents' warrants	263,681	616,237	-
Fair value of options exercised	-	162,800	(162,800)
Fair value of agents' warrants exercised	-	254,747	(254,747)
	5,364,231	12,249,077	(417,547)
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
Black-Scholes calculation on options granted			935,250
Total increase for the period	5,364,231	11,345,675	(838,478)
<b>Balance, September 30, 2006</b>	<b>22,515,548</b>	<b>\$ 25,777,601</b>	<b>\$ 2,157,244</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.

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

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**September 30, 2006 and 2005**

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**8. Share Capital (continued)****c) Private Placement (continued)**

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 nine months ended September 30, 2006.

**d) Options outstanding**

A summary of the Company's outstanding stock options as of September 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	645,000	2.35
Options exercised	(280,000)	0.76
<b>Outstanding and exercisable at September 30, 2006</b>	<b>1,930,131</b>	<b>\$ 1.32</b>

At September 30, 2006, there were 1,930,131 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
659,750	\$ 0.65	November 28, 2008
120,000	\$ 0.65	June 29, 2009
505,381	\$ 1.05	June 10, 2010
645,000	\$2.35	July 17, 2011
<b>1,930,131</b>		

**e) Warrants outstanding**

A summary of the Company's outstanding share purchase warrants at September 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>

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

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**September 30, 2006 and 2005**

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

	Number of warrants	Weighted average exercise price
<b>Outstanding and exercisable at December 31, 2005</b>	<b>1,875,300</b>	<b>\$ 2.35</b>
Warrants granted	1,625,000	3.00
Agents' options granted	227,500	2.25
Agents' options warrants granted	113,750	2.25
Warrants exercised	(1,570,550)	2.35
Agents' warrants exercised	(229,556)	2.35
Agents' options exercised	(22,750)	2.25
Agents' options warrants exercised	(11,375)	2.25
Warrants expired	(74,450)	2.35
Agents' warrants expired	(744)	2.35
<b>Outstanding and exercisable September 30, 2006</b>	<b>1,932,125</b>	<b>\$ 2.88</b>

At September 30, 2006, there were 1,932,125 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
204,750	\$ 2.25	September 28, 2007
102,375	\$ 2.25	September 28, 2007
<b>1,932,125</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.

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

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**September 30, 2006 and 2005**

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**9. Stock Based Compensation (continued)**

During the period ended September 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 was recorded and credited to contributed surplus.

**10. Non Cash Transactions**

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

<b>September 30,</b>	<b>2006</b>	<b>2005</b>
Financing activity – warrants issued	\$ 320,775	\$ -
Investing activity – asset retirement obligation recorded	\$ 53,840	\$ -

**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 September 30, 2006 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 564,792
Marketable securities	\$ 475
Reclamation bonds	\$ 83,503
Accounts payable	\$ 49,833
Due from directors	\$ 11,015
Asset retirement obligation	\$ 83,503

At September 30, 2006 US dollar amounts were converted at a rate of \$1.11415 Canadian dollars to \$1.00 US dollar.

**b) Credit risk**

At September 30, 2006 the Company held cash treasury bills and marketable securities of \$9,334,482 (December 2005 - \$2,892,695) 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.

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

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**September 30, 2006 and 2005**

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**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 **\$67,000** (2005 - \$62,000) to 2 companies controlled by each of a director and an officer; and mineral property services of **\$65,000** (2005 - \$55,500) paid to a company controlled by a director.
- b) During the period, the Company paid management salaries of **\$59,340** (2005 - \$55,037) to the President.
- c) During the period, the Company paid management fees of **\$21,992** (2005 - \$22,015) and rent of **\$7,006** (2005 - \$5,491) to a director of the wholly-owned subsidiary.
- d) During the period, the Company paid accounting fees of **\$11,800** (2005 - \$NIL) to an officer of the Company.
- e) Amounts owing from directors and officers of the parent company and the wholly owned subsidiary of **\$12,272** (2005 - \$11,205 due to a director) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

**13. Segmented Information**

September 30, 2006	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	1,154,134	294,484	1,448,618
Loss for the period	\$ (1,154,134)	\$ (294,484)	\$ (1,448,618)
Capital assets	\$ 39,187	\$ 8,749,122	\$ 8,788,309

September 30, 2005	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	290,962	286,965	577,927
Loss for the period	\$ (290,962)	\$ (286,965)	\$ (577,927)
Capital assets	\$ 28,833	\$ 4,599,469	\$ 4,628,302

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

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**September 30, 2006 and 2005**

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**14. Commitments**

As at September 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	\$ 4,011
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**

The Company has been made aware of CMQ Resources Inc.'s news release of November 6, 2006 regarding lease arrangements for Company's Hot Springs Point property (See Note 6e), located 8.5 miles southeast of the Fire Creek Property. CMQ has not contacted the Company with regard to the allegations made in its news release.

Despite the execution of a form of lease agreement on August 1, 2006, no consideration has yet passed and the terms of the lease arrangements have been the subject of ongoing discussions. On November 6, 2006, CMQ Resources Inc., the parent company of Vasquir Mines Inc., issued a press release advising that it had terminated talks for a \$10 million financing as a result of purported communications from Klondex that the lease was invalid. In that same news release, CMQ advised that it would seek confirmation of the court that it had a valid lease with Klondex. Klondex has received no communication from CMQ with respect to the news release. Klondex is concerned that a number of terms set out in the proposed lease may be uncertain, and had requested that clarifying revisions be made to the lease. Klondex is awaiting a further response from CMQ.