

Klondex Mines Ltd.

Interim Consolidated Financial Statements

September 30, 2007

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

September 30, 2007

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UNAUDITED INTERIM FINANCIAL STATEMENTS

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

NOTICE TO READER

The interim balance sheet as at September 30, 2007 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 12, 2007

/s/ Brendan Donohoe

Brendan Donohoe, Director
Vancouver, BC Canada
November 12, 2007

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

	September 30, 2007	December 31, 2006
Assets		
Current		
Cash and equivalents (note 3)	\$ 5,677,647	\$ 8,920,320
Marketable securities (note 4)	472	459,404
Prepaid expenses	41,179	8,881
Accounts receivable	25,465	48,838
Subscription receivable	47,250	-
Due from a related party (note 13)	16,850	13,161
	5,808,863	9,450,604
Rent deposit (note 5)	16,375	16,375
Property and equipment (note 6)	46,669	46,063
Mineral properties and related deferred expenses (note 7)	14,021,390	10,379,959
Reclamation bonds (note 8)	191,426	98,956
	\$ 20,084,723	\$ 19,991,957
Liabilities		
Current		
Accounts payable and accruals	\$ 330,998	\$ 368,826
Asset retirement obligation (note 8)	191,426	98,956
	522,424	467,782
Deferred lease inducement (note 15)	8,207	10,663
	530,631	478,445
Shareholders' Equity		
Share capital (note 9)	26,638,918	25,777,601
Contributed surplus (notes 9 and 10)	2,130,475	2,157,245
Deficit	(9,215,301)	(8,421,334)
	19,554,092	19,513,512
	\$ 20,084,723	\$ 19,991,957

Contingency (note 7f)**Approved by the Directors:****William J. Solloway (sgd.)** Director**Brendan Donohoe (sgd.)** Director

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Administrative Expenses				
Amortization	\$ 3,489	\$ 3,496	\$ 8,129	\$ 10,086
Consulting fees	32,459	50,630	115,600	124,340
Foreign exchange (gain)	(32,786)	15,888	42,206	41,732
Legal, audit and accounting	43,647	30,323	138,058	86,923
Management fees and salaries	26,610	30,577	93,373	81,332
Office and miscellaneous	15,298	25,966	57,651	50,105
Stock-based compensation	141,420	935,250	293,890	935,250
Telephone	4,806	3,119	13,751	10,982
Transfer agent and regulatory fees	9,322	2,885	106,423	17,766
Travel, conferences and meetings	58,679	82,393	204,874	311,216
Interest earned	(66,348)	(154,789)	(238,788)	(221,114)
	236,596	1,025,738	835,167	1,448,618
Loss for the period	(236,596)	(1,025,738)	(835,167)	(1,448,618)
Deficit, beginning of period	(8,978,705)	(7,374,134)	(8,421,334)	(6,951,254)
Fair Value Adjustment on Marketable Securities (Note 2)	-	-	41,200	-
Deficit, end of period	\$ (9,215,301)	\$ (8,399,872)	\$ (9,215,301)	\$ (8,399,872)
Basic and diluted loss per share	\$ (0.01)	\$ (0.05)	\$ (0.04)	\$ (0.07)
Weighted average number of shares outstanding	22,800,865	21,938,051	22,696,282	20,413,495

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

Nevada Properties	9 Months Ended	Year Ended
For the third quarter ended September 30,	September 30,	December 31,
	2007	2006
Balance, beginning of period	\$ 10,379,959	\$ 5,703,605
Acquisition of land	77,564	58,319
Advance - Drilling	104,019	-
Assays and core costs	271,515	449,726
Consulting	220,025	436,874
Drilling	2,282,198	3,241,590
Environmental consulting & permitting	211,286	-
Field supplies and equipment	79,567	76,130
Geophysics	532	131,635
Lease payments, taxes and royalties	97,751	22,862
Legal	-	980
Maintenance fees	81,567	105,048
Mapping and sampling	56,254	12,928
Miscellaneous	30,865	35,058
Site reclamation	92,470	53,840
Site visits	35,818	51,364
Current period expenditures	3,641,131	4,676,354
Balance, end of period	\$ 14,021,390	\$ 10,379,959

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

	Three months ended September 30, 2007		Nine months ended September 30, 2007	
		2006		2006
Cash provided by (used in)				
Operating activities				
Loss for the period	\$ (236,596)	\$ (1,025,738)	\$ (835,167)	\$ (1,448,618)
Items not involving cash				
Amortization	3,489	3,496	8,129	10,086
Deferred lease inducement realized	(819)	(819)	(2,456)	(2,456)
Stock based compensation	141,420	935,250	293,890	935,250
Foreign exchange - unrealized	31	3	31	25
	(92,475)	(87,808)	(535,573)	(505,713)
Change in non-cash working capital				
Accounts receivable	(6,149)	17,649	23,373	(5,106)
Prepaid expenses	(5,398)	(8,881)	(32,298)	(3,946)
Accounts payable	(461,881)	45,683	(43,447)	(270,346)
	(565,903)	(33,357)	(587,945)	(785,111)
Financing activities				
Issue of share capital	409,501	141,780	493,407	11,831,530
Share issue cost, cash	-	-	-	(582,627)
Due to (from) related parties	(3,244)	66	(3,689)	(24,288)
	406,257	141,846	489,718	11,224,615
Investing activities				
Reclamation bond	-	-	(92,470)	-
Marketable securities	-	-	500,101	-
Purchase of property & equipment	(1,133)	(4,160)	(8,735)	(6,080)
Accounts payable related to Mineral properties	360,268	-	5,619	-
Deferred exploration	(1,810,367)	(1,561,910)	(3,548,961)	(3,029,935)
	(1,451,232)	(1,566,070)	(3,144,446)	(3,036,015)
Net increase (decrease) in cash and equivalents	(1,610,878)	(1,457,581)	(3,242,673)	7,403,490
Cash and equivalents, beginning of period	7,288,525	11,753,766	8,920,320	2,892,695
Cash and equivalents, end of period	\$ 5,677,647	\$ 10,296,185	\$ 5,677,647	\$ 10,296,185

Supplemental Cash Flow Information (note 11)

The company had the following cash transactions:

Interest received	\$ 66,348	\$ 154,789	\$ 238,788	\$ 221,114
Income taxes paid	-	-	-	-

September 30, 2007

1. Nature of Operations

The Company is in the business of owning, acquiring, exploiting, exploring, developing and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The company has interests in the properties all located in the State of Nevada, USA.

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

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

2. Financial Statement Presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the company's annual audited financial statements for the year ended December 31, 2006 for additional information.

Changes in accounting policies

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financials assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial instruments are measured at their fair value with changes in fair value recorded in other comprehensive income.

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

September 30, 2007

2. Changes in accounting policies (continued)

As a result of the adoption of these new standards, the Company has classified its marketable securities as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

As a result of application of Section 3855, the Company's deficit as at January 1, 2007 was reduced by \$41,200 to reflect the opening fair value of marketable securities.

3. Cash and cash equivalents

	September 30, 2007	December 31, 2006
Cash on deposit	\$ 534,312	\$ 920,294
Treasury bills	5,143,335	8,000,026
	\$ 5,677,647	\$ 8,920,320

4. Marketable securities

During the year-ended December 31, 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 December 31, 2005 the market value of the debentures was \$458,850 and accordingly a write-down of \$41,150 was recorded. At December 31, 2006, the market value of the debentures was \$500,050. The REIT convertible debentures were redeemed on March 13, 2007 at 101% of the principal amount, which amount (\$505,000) was received by the Company.

The Company also holds 100 shares of Coeur D'Alene Mines with a book value of US\$475 and a market value of US\$495.

5. 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.

6. Property and Equipment

	September 30, 2007		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,282	\$ 14,244	\$ 23,038
Telephone equipment	1,376	840	536
Furniture and fixtures	27,060	16,069	10,991
Leasehold improvements	24,736	12,632	12,104
	\$ 90,454	\$ 43,785	\$ 46,669

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

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6. Property and Equipment (continued)

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 28,370	\$ 10,726	\$ 17,644
Telephone equipment	1,376	765	611
Furniture and fixtures	25,600	12,689	12,911
Leasehold improvements	24,736	9,839	14,897
	\$ 80,082	\$ 34,019	\$ 46,063

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

The Company has a 100% ownership interest in this land block which was expanded during fiscal 2003 by 2,720 acres via claim staking 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 fiscal year 2002, the Company purchased the drill cores and data from the joint venturers for consideration of US\$4,000 and issuance of 15,000 common shares of the Company.

During the fiscal year 2004, the Company acquired 4 additional blocks of private 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 fiscal year 2005, the Company acquired 5 additional blocks of land, which totaled 13 acres for \$65,686 (US\$53,594). In the second quarter of this year, an additional 100 acres were acquired for \$53,344 (US\$43,415).

During the nine months ended September 30, 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490) to bring total acreage to 5,235.

b) 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\$80,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

In the event of the outright purchase of the Property by the Company, the Optionor will retain a 3% net smelter royalty, with the Company having a one-time option to purchase one percent of the royalty in consideration of \$1,000,000, at any time until June 17, 2015.

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7. Mineral Property and Related Deferred Exploration Expenses (continued)

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) Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada.

e) Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek. These claims provide access to the northern Fire Creek block from the powerline road.

f) 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 Hot Springs Point Property to Vasquir Mines Inc. ("Vasquir"). Under the negotiated terms, Vasquir would lease the property for an initial cash payment and share issuance, annual cash payments and exploration expenditures, and a scaled net smelter return royalty of a minimum of 3% to a maximum of 10%.

On December 5, 2006 the Company received a claim filed in the Nevada Supreme Court from Vasquir Mines Inc. ("Vasquir"), a subsidiary of CMQ Resources Inc. in relation to a lease agreement between Vasquir and Klondex Mines Ltd. for Klondex Mines Hot Springs Point property, located 8.5 miles southeast of the Fire Creek Property. Vasquir has claimed that Klondex repudiated the agreement, and seeks: (i) a declaration from the court that the agreement is valid and enforceable lease, (ii) specific performance of the agreement, (iii) damages for slander of title and (iv) damages for breach of contract. Vasquir has also claimed damages for interference with economic advantage, claiming that Klondex's purported repudiation of the agreement resulted in the loss of a \$10 million financing by CMQ, and a decrease in the market capitalization of CMQ of \$8.3 million. The Company has denied all of the allegations of Vasquir. As of this writing, negotiations are underway with respect to settlement of the dispute, with a proposal for both parties to pay their own expenses related to the dispute, and for both parties to confirm the working arrangement under which they will be proceeding with respect to the property. The Company is optimistic at reaching settlement soon.

g) Reef claims, Churchill County, Nevada

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

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

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8. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$191,426 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities to date on the Fire Creek properties. The fair value of the liability \$191,426 was determined to be equal to the estimated drill well site remediation costs as it is assumed that remediation would commence within six months of year end. As at September 30, 2007 the Company has not commenced development of any property and accordingly a reasonable estimate of the timing of the cash flows can not be made. As a result the expected cash costs have been recorded as a current liability.

In the previous fiscal years, the Company posted non-interest bearing bonds of \$98,956 (US\$83,503) with the Bureau of Land Management in the State of Nevada as security for these obligations. During the nine months ended September 30, 2007, the Company posted additional non-interest bonds of \$92,470 (US\$80,000). Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost.

9. Share Capital

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

b) **Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2005	17,151,317	\$ 14,431,926	\$ 1,318,766
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
Stock based compensation	-	-	935,250
Total net increase	5,364,231	11,345,675	838,478
Balance, December 31, 2006	22,515,548	\$ 25,777,601	\$ 2,157,245

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

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9. Share Capital (continued)

	Shares	Amount	Contributed Surplus
Balance, December 31, 2006	22,515,548	\$ 25,777,601	\$ 2,157,245
Issued for cash			
Exercise of stock options	150,000	109,500	-
Exercise of agents' unit warrants	203,000	456,750	-
Returned to Treasury	(11,375)	(25,593)	-
Fair value of stock options exercised	-	93,300	(93,300)
Fair value of agents' unit warrants exercised	-	227,360	(227,360)
Stock based compensation	-	-	293,890
Balance, September 30, 2007	22,857,173	\$ 26,638,918	\$ 2,130,475

c) Options outstanding

A summary of the Company's outstanding stock options as of September 30, 2007 and the changes during the period then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding and exercisable at December 31, 2005	1,565,131	\$ 0.80
Options granted (note 10)	645,000	2.35
Options exercised	(280,000)	0.76
Outstanding and exercisable at December 31, 2006	1,930,131	1.32
Options granted	350,000	2.27
Options exercised	(150,000)	(0.73)
Outstanding at September 30, 2007	2,130,131	\$ 1.52

At September 30, 2007, there were 2,130,131 stock options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Outstanding	Exercisable	Exercise Price	Expiry Date
659,750	659,750	\$ 0.65	November 28, 2008
475,381	475,381	\$ 1.05	June 10, 2010
645,000	645,000	\$ 2.35	July 17, 2011
150,000	112,500	\$ 2.30	January 19, 2012
200,000	50,000	\$ 2.25	May 7, 2012
2,130,131	1,942,631		

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

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

A summary of the Company's outstanding share purchase warrants at September 30, 2007 and the changes during the period then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2005	1,875,300	\$ 2.29
Warrants granted	1,625,000	3.00
Agents' unit warrants granted	227,500	2.25
Agents' warrants granted	113,750	3.00
Warrants exercised	(1,570,550)	2.35
Agents' warrants exercised	(229,556)	2.35
Agents' unit warrants exercised	(22,750)	2.25
Agents' warrants exercised (note 17)	(11,375)	2.25
Warrants expired	(74,450)	2.35
Agents' warrants expired	(744)	2.35
Outstanding and exercisable December 31, 2006	1,932,125	2.88
Agents' unit warrants exercised	(203,000)	2.25
Warrants expired	(2,500)	3.00
Warrants cancelled	(1,622,500)	3.00
Warrants re-priced and extended	1,622,500	2.35
Agents' unit warrants expired	(1,750)	2.25
Agents' warrants cancelled	(113,750)	3.00
Agents' warrants exercised re-priced and extended	113,750	2.35
Agents' warrants returned to Treasury	11,375	3.00
Outstanding and exercisable September 30, 2007	1,736,250	\$ 2.35

On September 26, 2007, the TSX Venture Exchange accepted the amendment of the price of 1,622,500 share purchase warrants and 113,750 agents' warrants from \$3.00 to \$2.35 and the expiry date from September 28, 2007 to December 8, 2007.

At September 30, 2007, there were 1,736,250 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
1,622,500	\$ 2.35	December 8, 2007
113,750	\$ 2.35	December 8, 2007
1,736,250		

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

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10. Stock Based Compensation

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 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.

During the period ended September 30, 2007 the Company granted directors, officers and consultants 150,000 incentive stock options at an exercise price of \$2.30 per share expiring on January 19, 2012 and 200,000 incentive stock options at an exercise price of \$2.25 per share expiring on May 7, 2012.

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:

	2007	
	150,000	200,000
# of option granted	150,000	200,000
Dividend rate	0.00 %	0.00 %
Risk-free interest rate	4.06 %	4.06 %
Expected life	5 years	5 years
Expected annual volatility	93.47 %	90.39 %
Strike price	\$ 2.30	\$ 2.25
Spot price	\$ 1.88	\$ 1.84
Fair value	\$ 1.69	\$ 1.56

Total compensation expense of \$293,890 for the vested portions have been expensed in the statement of operations and credited to contributed surplus for the period ended September 30, 2007.

11. Non Cash Transactions

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

	30-Sep-07	31-Dec-2006
Financing activities		
Contributed surplus allocated on exercise of options	\$ 93,300	\$ 162,800
Contributed surplus allocated on exercise of agents' unit warrants exercised	\$ 227,360	-
Fair value of agent's warrants granted	\$ -	\$ 254,747
Asset retirement obligation recorded	\$ 92,470	\$ 53,840
Investing activity		
Asset retirement obligation recorded as mineral property costs	\$ (92,470)	\$ (53,840)

Klondex Mines Ltd.

Notes to the Interim Consolidated Financial Statements

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12. Financial Instruments

a) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At September 30, 2007 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 148,819
Marketable securities	\$ 475
Reclamation bonds	\$ 163,503
Accounts payable	\$ 323,010
Due from Directors	\$ 16,970

At September 30, 2007 US dollar amounts were converted at a rate of \$0.99293 Canadian dollars to \$1.00 US dollar.

b) Credit risk

At September 30, 2007 the Company held a treasury bill and marketable securities of \$5,143,335 (December 2006 - \$8,845,000) 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.

13. Related Party Transactions

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

- a) During the period, the Company paid consulting fees of \$40,330 (2006 - \$67,000) and mineral property services of \$100,930 (2006 - \$65,000) to an officer and to companies controlled by directors and an officer.
- b) During the period, the Company incurred salary & benefit expenses of \$63,355 (2006 - \$59,340) to the President.
- c) During the period, the Company incurred management fees of \$30,018 (2006 - \$21,992) and rent of \$5,337 (2006 - \$7,006) to a director.
- d) During the period, the Company incurred accounting fees of \$45,463 (2006- \$11,800) to an officer.
- e) Amounts owing from the president of \$16,850 (December 31, 2006 - \$13,161) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

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

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14. Segmented Information

September 30, 2007	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	463,083	372,084	835,167
Loss for the period	\$ (463,083)	\$ (372,084)	\$ (835,167)
Identifiable assets	\$ 5,713,562	\$ 14,371,161	\$ 20,084,723

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)
Identifiable assets	\$ 10,239,639	\$ 9,490,143	\$ 19,729,782

15. Commitments

As at September 30, 2007, 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 four years are as follows:

2007	\$ 4,011
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.

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Nine Months Ended September 30, 2007

Directors and Officers as at November 12, 2007:

Directors:

William J. Solloway
Brendan Donohoe
Robert Sibthorpe
John Pollock
Ronald Shorr

Officers:

President – William J. Solloway
Chief Financial Officer – Jorge Avelino
Secretary – Fred Baker

Contact Name:

Fred Baker
Telephone: (604) 638-3273
(604) 602-4935
Fax: (604) 602-4936

Toronto Stock Exchange Symbol:

KDX

KLONDEX MINES LTD.**MANAGEMENT DISCUSSION & ANALYSIS**

For the Nine Months Ended September 30, 2007

1.1 Date of This Report

November 12, 2007

1.2 Overall Performance*Description of Business*

Klondex Mines Ltd. ("Klondex" or the "Company") was founded in 1974 and 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.

On February 26, 2007, the Company's common shares were listed and posted for trading on the Toronto Stock Exchange, and were delisted from the TSX Venture Exchange.

Klondex holds mineral interests in 10,665 acres in the prime area of northern Nevada's mining industry. The Company's principal property is the 100% owned Fire Creek Property. Fire Creek Property comprises of leasehold land along the Northern Nevada Rift in North Central Nevada. It is strategically located in the Crescent Valley area of the Battle Mountain gold belt between the past producing Mule Canyon Mine to the north and the world-class Pipeline and Cortez gold deposits to the south.

1.3 Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	December 31, <u>2006</u>	December 31, <u>2005</u>	December 31, <u>2004</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$1,470,080	\$1,437,133	\$507,663
(ii) Loss per share - basic	\$0.07	\$0.09	\$0.04
(iii) Loss per share - diluted	\$0.07	\$0.09	\$0.04
(c) Net loss			
(i) Total loss	\$1,470,080	\$1,437,133	\$507,663
(ii) Loss per share - basic	\$0.07	\$0.09	\$0.04
(iii) Loss per share - diluted	\$0.07	\$0.09	\$0.04
(d) Total assets	\$19,991,957	\$9,270,560	\$8,952,176
(e) Total long-term liabilities	10,663	13,938	-
(f) Cash dividends declared per-share	N/A	N/A	N/A

1.4 Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

NEVADA MINERAL PROPERTIES

Acquisition and Exploration expenditures:

Nevada Properties	September 30, 2007	December 31, 2006
Balance, beginning of the period	\$ 10,379,959	\$ 5,703,605
Acquisition of land	77,564	58,319
Advance - Drilling	104,019	-
Assays and core costs	271,515	449,726
Consulting - geological	220,025	436,874
Drilling	2,282,198	3,241,590
Environmental consulting & permitting	211,286	
Field supplies and equipment	79,567	76,130
Geophysics	532	131,635
Lease payments, taxes and royalties	97,751	22,862
Legal	-	980
Maintenance fees	81,567	105,048
Mapping and sampling	56,254	12,929
Miscellaneous	30,865	35,057
Site reclamation	92,470	53,840
Site visits	35,818	51,364
Current period expenditures	3,641,131	4,676,354
Balance, end of period	\$ 14,021,390	\$ 10,379,959

Fire Creek Gold Properties, Lander County, Nevada

The Company has a 100% ownership interest in this land block which was expanded during fiscal 2003 by 2,720 acres to a total of 4,875 acres. During the fiscal year 2004, the Company acquired four additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). During the fiscal year 2006, the Company acquired additional blocks of land, which totaled 130 acres for Cdn\$119,030 (US\$97,009). These acquisitions bring the total acreage to 5,185 acres. These acquisitions were necessary to ensure logistical access to the main mineralized zones and to acquire areas which represent the strike extensions of these zones.

During the nine months ended September 30, 2007, the Company acquired an additional 50 acres for \$77,564 (US\$66,490) to bring total acreage to 5,235. The additional acreage is the most suitable land to put the planned tunnel that will be used for the underground drilling.

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

Exploration Results and Future Plans & Developments

On April 19, 2006, the Company announced receipt of assay results on 4 holes from the Phase 4 drilling (please refer to the press release for technical data). Poor weather conditions have hindered drilling efforts throughout 2006 at Fire Creek with wet weather making it difficult to move and supply the drill rigs.

On May 16, 2006, the Company announced receipt of assay results from an additional 2 holes from the Phase 4 drilling. These holes now indicate that the Far North Zone has a strike length of at least 400 meters and comprises three and perhaps four, mineralized structures which are open in all directions (please refer to the press release for technical data).

The Company has also submitted six metallurgical samples for testing. Samples C1, C2, C3 and C4 were taken from drill intercepts in the Main/West resource area where a NI 43-101 compliant resource estimation of 1,779,196 tons grading 0.328 opt (583.081 oz gold) was reported in May, 2005. Samples C5 and C6 were taken from drill core from the Far North Zone where heavier concentrations of sulfides including arsenopyrite have been observed.

On June 1, 2006, the Company announced the following:

- Fritz Geophysics of Reno, Nevada commenced a Gradient IP survey at Fire Creek. It is hoped that this new survey will generate additional drill targets in this area which is extensively covered by post-mineralization basalt flows.
- Work associated with amending the current Plan of Operations continues under the guidance of Enviroscientists, Inc., of Reno, Nevada, the Company's environmental and permitting consultants. The permit has been completed as of March 2007 and is under review by the US authorities.
- The reverse circulation and diamond drill rigs dedicated to the Fire Creek Project continue to investigate the strike extensions of both the Main/West (MW) and Far North (FN) resource zones. About 1800 feet of drilling and 300 samples for assaying are being generated weekly and staff has been added to handle the increased work load.

On July 20, 2006, the Company reported assay results from additional drilling at the Fire Creek property (please refer to the Press Release for additional technical data). One drill hole returned two intercepts, 3.12 oz/ton over 6.5 feet (107.5 gpt over 1.98 meters) and 1.64 oz/ton over 20 feet (56.43 gpt over 6.1 meters). The second drill hole intersected 1.87 oz/ton over 7.5 feet (64.48 gpt over 2.29 m). These results and those from additional holes received from Phase 4 and the first holes from Phase 5 drilling that began July 1, can be found in the Company's July 20th, 2006 press release. The holes as reported, detected their targeted mineralized structure and additional holes will be drilled to locate higher grade intercepts.

With Phase 4 drilling completed, the remaining resource expansion and in-fill holes will be reported as received. Phase 5 drilling will continue with fill-in drilling, but primarily explore for new ore zones through testing of geophysical anomalies generated by a recent 63 line-kilometer Induced Polarization Survey.

On September 5, 2006, the Company reported that the pending NI 43-101 report contained the following information:

1.4 Results of Operations (continued)

Fire Creek Gold Property (continued)

“Through extensive drill campaigns carried out over the past 3 years, the Company has defined an indicated mineral resource estimated at 1,636,555 tonnes grading 19.88 grams per tonne (1,803,993 tons grading 0.576oz/ton) containing 1,045,738 oz of gold in two separate mineral zones. The IP survey has identified at least another 12 significant anomalies that are likely vein systems east, west, and north of the present target area. Many of these anomalies are longer than the trends presently being evaluated.”

The Indicated Mineral Resource was based on the information from 79 drill holes totaling 100,405 feet. The estimation method used was the polygonal technique. Key assumptions included a \$US gold price cutoff for the ore blocks and a minimum 7 foot mining width for dilution. A bulk tonnage density factor of 2.55 was applied based on six specific gravity measurements of representative core. High gold values were not cut but their area of influence was limited by a number of constraints. This Indicated Mineral Resource is an update from the previously announced (May 18, 2005) Inferred Mineral Resource of 400,529 ounces of gold in 556,342 tons grading 0.72 oz/ton (24.38 gpt).

In September 2006, Klondex announced an Indicated Mineral Resource totaling 1,045,738 ounces of gold comprised of two regions: the Main Zone (801,681) ounces and the Far North Zone (244,047) ounces. Since that time, the Company has received assays for 18 completed drill holes totaling 24,116 feet (7,352 m). This resource is detailed in the Technical Report.

On December 11, 2006, the Company reported assay results from its in-fill and exploratory drilling program at its Fire Creek Property in the Battle Mountain-Eureka Trend in Northern Nevada. The drilling program is intended to further explore and expand the Company’s current Indicated Mineral Resource as well as to drill test 16 anomalies identified outside of the Main and Far North Zones.

Overview – Most Recent Drilling:

- In-fill drilling in the Main Zone reduced the distance between drill hole vein intercepts from about 50 to 25 meters resulting in an increase in the continuity and high grade nature of the deposit. Since the zone could be accessed relatively easily by a decline, Klondex is amending its Plan of Operations to permit underground operations with this area being the focus of initial testing and bulk sampling activity in 2007. Samples of ore, development waste rock and water are being analyzed and the Company hopes to submit the amendment later this year.
- Drilling extended the Main Zone mineralization an additional 100 meters with an intercept on Section 750 North. Additional drilling is planned for this section to attempt to intercept higher grades over longer intervals.
- Drilling was conducted outside the known mineralization on the extremities of the Far North Zone without returning positive results, indicating that the resource estimate for this area may represent an upper limit.
- The drilling program tested six anomalies outside of the two known Zones and returned significant results from a structure located approximately 200 meters northwest of the Far North Zone. This “New North Zone” now represents a target for additional resources at Fire Creek.

1.4 Results of Operations (continued)

Fire Creek Gold Property Overview – Most Recent Drilling: (continued)

In-Fill Drilling - Drill hole FC0621 returned 0.714 oz/ton over 35 feet (24.6 gpt over 10.67 meters) from the Main Zone. The high-grade result from drill hole FC0621 completed the effort to confirm a high-grade area of the Main Zone over 100 meters from 25 North to 125 North. Results from Veins 2, 3, and 4 indicate a mineral resource drilled off on 25 meter centers of 173,810 tons grading 1.23 oz/ton (157,722 tonnes grading 42.4 gpt) for 215,187 ounces of gold based on the September NI 43-101 Report resource estimate. Since this zone is relatively easily accessed by decline, the Company is amending its Plan of Operations to permit underground operations with this area being the focus of initial testing and bulk sampling activity in 2007.

Extensional Drilling - Drill hole FC0611 extended the Main Zone mineralization an additional 100 meters to the north with an intercept of 0.146 oz/ton over 10 feet (5.03 gpt over 3.05 meters). Since it is now known that the veins at Fire Creek seldom carry ore grades over the entire extent of the 'boiling zone' of this epithermal deposit, additional holes are planned for this section to attempt to intercept higher grades over longer intervals. An additional six holes were drilled outside the known mineralization on the extremities of the Far North Zone without returning positive results indicating that the resource estimate for this area may represent an upper limit.

Outside Target Drilling - Drill hole FC0632 intersected 0.247 oz/ton over 10 feet (8.51 gpt over 3.05m) and 0.203 oz/ton over 10 feet (7.02 gpt over 3.05 m) from a new zone located by drilling geophysical anomalies generated earlier this year. An induced polarization geophysical survey conducted earlier this year detected 16 separate anomalies outside of the known Main and Far North Zones. Eight drill holes tested 6 of these anomalies and hole FC0632 returned significant results from Anomaly # 4 as shown on the Drill Hole Location map referenced below. The FC0632 results are from a structure located some 200 meters northwest of the Far North Zone, which now represents a target for additional resources at Fire Creek. Assays for 1 additional hole from this "New North Zone" are pending and a third hole is currently being drilled. Drilling activity at Fire Creek will cease in mid to late December and resume when weather conditions improve in the spring of 2007.

Lower grade wide intercepts - The reported drilling included two broad intercepts of lower grade gold mineralization in drill holes FC0639 and FC0612 (0.043 oz/ton over 170 feet and 0.033 oz/ton over 170 feet) respectively. Klondex drilling since 2004 has focused exclusively on deeper drilling for high grade mineralization and these intercepts above were encountered in the upper sections of drill holes targeting deeper high grade mineralization. These lower grade intercepts will be reviewed in conjunction with other shallow drilling results from previous operators for bulk tonnage potential at Fire Creek.

These results and those from additional holes received from Phase 4 and the first holes from Phase 5 drilling that began July 1 are presented in the Table below as well as estimated true widths for each significant intercept.

1.4 **Results of Operations** (continued)

Fire Creek Gold Property Overview – Most Recent Drilling: (continued)

Significant Drill Results Fire Creek										
Hole No.	Section	Target	Elev/Az	Angle	TD Feet	From Feet	To Feet	Length Feet	Grade Oz/ton	True Width * Factor (%)
FC0611	750N	Main Ext	6270/75	-45	1540	1480	1490	10	0.146	70
FC0620	100N	Main Infill	5975/75	-44	950	775	783	8	0.191	80
					and	795	800	5	0.412	80
FC 0621	100N	Main Infill	5975/75	-52	1000	790	825	35	0.714	75
FC0639	150N	IP #0	6377/255	-45	600*	200	370	170	0.043	70
FC0632	1150N	IP #4	6506/255	-45	1455	1135	1145	10	0.247	70
					and	1215	1225	10	0.203	70
FC0612	750N	FN Infill	6184/75	-48	1200	790	960	170	0.033	70

- (Factor) X (Length) = True Width as estimated from drill hole surveys and assumed vein dips.
- Assays received from reverse circulation portion of hole only

The final 43-101 Report entitled “Fire Creek Gold Property” was filed on SEDAR on September 19, 2006. A plan map setting out hole locations is located on the Company’s website at www.klondexmines.com.

On March 2, 2007, the Company announced that that its exploratory drilling program at its Fire Creek Property in the Battle Mountain-Eureka Trend in Northern Nevada is scheduled to resume by mid-April. The drilling program is intended to expand the resource in the Main Zone as well as to test the remaining IP anomalies (possible ore bearing structures) identified outside of the Main and Far North Zones. Additionally, the Company is filing an Amendment to its Plan of Operations to permit underground access to the Main Zone mineralization for the purpose of definition drilling and bulk sampling.

To support its increased level of activity at Fire Creek, Klondex will establish an administrative office in North Central Nevada and a field office on site. The Company is pleased to announce the appointment of James L. Balagna III, B.A. (Geology) as Senior Geologist and manager of the Company’s underground development program. Mr. Balagna has 18 years of gold mining experience in Northern Nevada, most recently with Glamis Gold at their Marigold project near Valmy, Nevada, where he served as Senior Geologist. Prior to joining Glamis in 1999, Mr. Balagna also worked with FirstMiss Gold, Rayrock Mines and Placer Dome. He earned his geology degree from the University of Colorado at Denver. Given Mr. Balagna’s substantial experience in exploration and mining geology, he is expected to make a valuable contribution to the progress of the Company and its plans for Fire Creek.

On March 29, 2007, the Company filed an Amendment to the Exploration Plan of Operations and a Permit for Reclamation with the Bureau of Land Management (BLM) and the Nevada Division of Environmental Protection (NDEP) for its Fire Creek Property in the Battle Mountain-Eureka Trend in Northern Nevada. For full particulars, refer to the press release dated March 29, 2007.

1.4 Results of Operations (continued)

Fire Creek Gold Property Overview – Most Recent Drilling: (continued)

On July 4, 2007, the Company received assay results from the first four complete holes from Phase 6 drilling at its 100%-owned Fire Creek property in the Battle Mountain-Eureka Trend in Northern Nevada. These four holes were sited to fill in gaps in the “boiling zone” of the MAIN and WEST ZONES remaining from previous drill campaigns and test for additional veins south of the resource. An additional six drill holes from Phase 6 are completed and are pending assays and an additional seven holes are currently in progress. There are two core rigs and one reverse circulation rig drilling at Fire Creek.

All four holes returned at least one significant intercept. Hole FC0701 reported 25.3 gpt gold over 1.52 meters and represents a 100 meter extension to the south of the previously known MAIN ZONE mineralization. Hole 0702 intersected 287.0 gpt gold over 0.8 meters (8.32 oz/ton gold over 2.6 feet) extending to depth by approximately 80 meters the high grade mineralization on Section 50N represented by previously drilled 0619 (64.2 gpt over 1.52 meters). Hole 0711 was sited primarily to test an IP anomaly some 150 meters west of the MAIN ZONE and returned a 6.3 gpt interval over 3 meters from this area. This hole also encountered MAIN ZONE mineralization higher up the hole with 11.3 gpt over 3 meters in a portion of the veining previously assumed to be unmineralized. Finally, Hole 0704 intersected 11.1 gpt over 4.9 meters, improving upon the nearby previously reported 0517 (15.5 gpt over 0.7 meters).

All four holes are believed to have contributed valuable information regarding the structural control of the MAIN ZONE veining and to have increased the tonnage and grade from the previously announced NI 43-101 compliant resource estimate of 801,861 ounces in 912,366 tonnes (27.33 gpt) within the larger Fire Creek resource of 1,054,738 ounces in 1,636,555 tonnes (19.88 gpt). Drilling will continue at Fire Creek through the autumn of 2007 with one core rig drilling geophysical targets to find new zones and the other attempting to expand the tonnage of the known mineralized zones.

On October 19, 2007, the Company announced additional high-grade intercepts from recent core drilling under its Phase 6 drilling program.

High-grade gold intercepts were reported in holes FC0741 and FC0742, the southernmost holes that have been drilled to date at Fire Creek. Hole FC0742 returned 15.39 grams per tonne (gpt)/0.45 ounces per ton (opt) gold over 18 feet (5.5 meters), including 41.55 gpt/1.21 opt gold over 4.5 feet (1.37 meters). FC0742 has an additional over-run (>10 gpt/+0.29 opt) that has not yet been check assayed to determine the final gold value.

FC0741 reported a mineralized zone of 115 feet (35.1m) grading 2.0 gpt/0.06 opt including 3.8 gpt/0.11 opt over 30 feet (9.14 m) including 11.0 gpt/0.32 opt over 5 feet (1.52m). FC0741 has a 195-foot interval on which assays are pending.

FC0741 and FC0742 are returning higher grades than those identified by previous southern discovery holes (FC0701, FC0734, FC0735) drilled on line 100m South on the Main Zone and seem to identify an additional vein. The mineralized zone appears open to the south, and Klondex plans to drill the extension as soon as all assay results are received and reviewed. Silver values are pending for both holes.

1.4 Results of Operations (continued)

Fire Creek Gold Property Overview – Most Recent Drilling: (continued)

FC0741 & FC0742 were drilled on line 200m South at an azimuth of 255 degrees. The dip of FC0741 was -45 degrees and FC0742 was -55 degrees. The holes were core drilled from the surface with little change in dip of the holes. True width of intercepts in FC0742 is estimated at 57% of drilled thickness and true width in FC0741 is estimated at 71% of drilled thickness.

Significant Intervals Phase 6 Drilling at Fire Creek									
Hole #	Section	Az	Dip	TD Feet	From Feet	To Feet	Interval Feet	Au gpt	Au oz/ton
FC07-41	200S	255	-45	815	595	710	115	2.00	0.058
				including	675	705	30	3.80	0.111
				including	690	695	5	11.00	0.321
Assays pending from 350-545 feet									
FC07-42	200S	255	55	900	665	670	5	>10	>0.292
					720	790	70	5.00	0.146
				including	757	775	18	15.40	0.450
				including	757	761.5	4.5	41.55	1.213

The permitting and contractor selection processes associated with the MAIN ZONE underground program scheduled to begin early next year appear to be on schedule. Based on preliminary estimates developed in-house for permitting, underground access, exploration, drilling, bulk sampling and other costs, Klondex believes it could generate a substantial operating profit during the three-year underground development/bulk sampling program, assuming no unforeseen circumstances.

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\$80,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

In the event of an outright purchase of the Property by the Company, the Optionor will retain a 3% net smelter royalty, with the Company having a one-time option to purchase one percent of the royalty in consideration of \$1,000,000, at any time until June 17, 2015.

Reef claims, Churchill County, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County. Anomalous gold and silver were previously detected along a siliceous reef which runs approximately a half mile in length. The claims are in good standing and will be renewed on September 1, 2007. The property is subject to U.S. federal and state environmental statutes.

1.4 **Results of Operations (continued)**

Reef claims, Churchill County, Nevada

Exploration Results and Future Plans & Developments

In June 2005, the Company completed 320 meters (1,050 feet) of reverse circulation drilling in six holes testing for possible down drip extensions of gold mineralization present in veins at surface. Alteration zones from 1.5 meters to 4.5 meters in width associated with the fault-vein zones were encountered but the highest gold value was 1.34 g/t over a 1.5 meter interval. No future work is planned for the property at this time.

Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area in Elko County, Nevada. The claims are in good standing and will be renewed on September 1, 2007. 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.

Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada. The claims are in good standing and will be renewed on September 1, 2007. 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.

Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek along the Mule Canyon-Fire Creek-Buckhorn volcanic trend. These claims provide access to the northern Fire Creek block from the powerline road. The claims are in good standing and will be renewed on September 1, 2007. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time. The claims are being held due to their strategic location.

Hot Springs Point, Lander County, Nevada

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley. They are in a basalt-andersite setting. The claims are in good standing and will be renewed on September 1, 2007.

During the period ended September 30, 2006, the Company negotiated the principal terms of a 10 year lease of the Hot Springs 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%.

1.4 Results of Operations (continued)

Hot Springs Point, Lander County, Nevada (continued)

On December 5, 2006 the Company received a claim filed in the Nevada Supreme Court from Vasquir Mines Inc. ("Vasquir"), a subsidiary of CMQ Resources Inc. in relation to a lease agreement between Vasquir and Klondex Mines Ltd. for Klondex Mines Hot Springs Point property, located 8.5 miles southeast of the Fire Creek Property. Vasquir has claimed that Klondex repudiated the agreement, and seeks: (i) a declaration from the court that the agreement is valid and enforceable lease, (ii) specific performance of the agreement, (iii) damages for slander of title and (iv) damages for breach of contract. Vasquir has also claimed damages for interference with economic advantage, claiming that Klondex's purported repudiation of the agreement resulted in the loss of a \$10 million financing by CMQ, and a decrease in the market capitalization of CMQ of \$8.3 million. The Company has denied all of the allegations of Vasquir. As of this writing, negotiations are underway with respect to settlement of the dispute, with a proposal for both parties to pay their own expenses related to the dispute, and for both parties to confirm the working arrangement under which they will be proceeding with respect to the property. The Company is optimistic at reaching settlement soon.

Discussion of Operations and Financial Condition

Results of Operations

Interest income for the nine months ended September 30, 2007 was \$238,788 compared to \$221,114 for the nine months ended September 30, 2006; interest was lower in 2006 due to higher cash balance and T-Bill investments in 2007.

The loss for the nine months ended September 30, 2007 was \$835,167 as compared with a loss of \$1,448,618 for the for the nine months ended September 30, 2006. The main reason for the decrease in loss for the current period is due to the lower stock-based compensation expense. The current stock-based compensation expense is \$293,890 (\$935,250 – 2006).

Certain expenses increased during the current period. The listing in the Toronto Exchange resulted in an increase in regulatory fees (\$106,423 – 2007; \$17,766 – 2006). In addition to the listing, the extension of the warrants also caused an increase in legal, audit & accounting (\$130,058 – 2007; \$86,923 – 2006).

A breakdown of the "Consulting Fees" expense is as follows:

Corporate & administration fees	\$	62,534
Shareholders communication		53,066
Total	\$	115,600

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

Travel	\$	55,869
Communication and information		93,457
Conferences & meetings		26,574
Meals & entertainment		21,533
Website		1,664
Press releases and printed materials		5,777
Total	\$	204,874

1.4 **Results of Operations** (continued)

Discussion of Operations and Financial Condition

Investor Relations Activities

During the period, the Company responded to investor inquiries and conducted shareholder and investor mailouts. The responsibility for responding directly to all investor inquiries and for conducting shareholder and investor mailouts is handled by the Corporate Secretary in Vancouver and by the 2 directors in New York.

In January 2007, the Company entered into an agreement with Jaffoni & Collins (“JCI”) to provide investor relations services for the Company. Founded in 1994, JCI (www.jcir.com) 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 will receive a fee of US\$5,000 per month. The minimum term for the contract is twelve months with automatic successive twelve-month renewals thereafter, unless either party notifies the other of its desire not to renew. The Company will granted an option to Jaffoni to purchase 150,000 common shares of the Company at Cdn.\$2.30 per share, of which 37,500 options vest upon each of the three-,six-,nine- and twelve-month anniversaries of the signing of the contractual agreement.

Financings, Principal Purposes & Milestones

The Company was not involved in any financings during the nine months ended September 30, 2007.

For a discussion on “Principal Purposes & Milestones”, please refer to the detailed discussion on the Fire Creek Property.

1.5 **Summary of Quarterly Results**

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

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Sep-07	Jun-07	Mar-07	Dec-06	Sep-06	Jun-06	Mar-06	Dec-05
Total loss	(236,596)	(248,058)	(350,513)	(21,462)	(1,025,738)	(187,218)	(235,662)	(879,206)
Per share	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.00)	(\$0.05)	(\$0.01)	(\$0.01)	(\$0.05)

Discussion

For a detailed discussion on the nine months ended September 30, 2007, 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 September 30, 2007, the Company's working capital was \$5,286,439 (\$8,982,822 as at December 31, 2006). The Company currently has sufficient working capital for general and administration expenses until December 2007 and to meet the exploration program for the Fire Creek property. However, 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.

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 December 31, 2006 the market value of the debentures was \$500,050 and book value of \$458,050. The REIT convertible debentures were redeemed on March 13, 2007 at 101% of the principal amount, which amount \$505,000 was received by the Company.

Credit Risk

At September 30, 2007 the Company held treasury bills and marketable securities of \$5,143,335 (December 2006 - \$8,845,000) in an account with a Canadian brokerage firm. This amount is in excess of the \$1,000,000 insurance coverage provided by the Canadian Investor Protection Fund.

Currency Risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At September 30, 2007 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 148,819
Marketable securities	\$ 475
Reclamation bonds	\$ 163,503
Accounts payable	\$ 323,010
Due from directors	\$ 16,970

At September 30, 2007 US dollar amounts were converted at a rate of \$0.99293 Canadian dollars to \$1.00 US dollar.

1.7 **Capital Resources**

The only capital resources of the Company are its mineral properties with a historical cost of \$14,021,390 and its property and equipment with a net book value of \$46,669.

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 nine months ended September 30, 2007, with breakdown as follows:

Expense	2007	2006
Management fees & salaries	\$ 93,373	\$ 81,332
Consulting fees:		
- Corporate & admin fees	40,330	67,000
Accounting fees	45,463	11,800
Rent	5,337	7,006
Deferred geological fees	100,930	65,000
Total for the period	\$ 285,433	\$ 232,138

Amounts due from a director of \$16,850 (December 31, 2006 - \$13,161) are non-interest bearing, unsecured, and payable upon demand.

1.10 **Third Quarter – 2007:**

The second quarter expenditures do not differ significantly from other quarters.

1.11 **Proposed Transactions**

None.

1.12 **Critical Accounting Estimates**

N/A

1.13 **Changes in Accounting Policies**

Please refer to Note 2 of the Financial Statements

1.14 **Financial and Other Instruments**

The carrying value of cash and cash equivalents, marketable securities, accounts receivable and payable approximate their fair values due to the short maturity of those instruments.

1.15 Other

1.15.1 Share Capital as at September 30, 2007:

Disclosure of Outstanding Share Capital (September 30, 2007)

	Number	Book Value	Contributed Surplus
Common Shares	22,857,173	\$26,638,918	\$2,130,475

Summary of incentive stock options: (September 30, 2007)

Number of Shares	Expiry Date	Exercise Price
659,750	November 28, 2008	\$0.65
475,381	June 10, 2010	\$1.05
645,000	July 17, 2011	\$2.35
150,000	January 19, 2012	\$2.30
200,000	May 7, 2012	\$2.25
2,130,131		

Summary of warrants outstanding: (September 30, 2007)

Number of Shares	Expiry Date	Exercise Price
1,625,000	December 8, 2007	\$2.35
113,750	December 8, 2007	\$2.35
1,736,250		

1.15.2 Other

The Company received a petition (the "Petition") filed in the Supreme Court of British Columbia dated June 19, 2007 in relation to a shareholder proposal previously submitted to the Company by a group of shareholders purporting to hold approximately 1% of the Company's outstanding shares as of March 12, 2007. The shareholders' proposal was to put an individual of their choice on the ballot for election as a director at the Company's annual general meeting. The Company rejected the proposal on the basis that it had not been submitted in accordance with the provisions of the Business Corporations Act (British Columbia). The relief requested in the Petition includes a request to annul the results of the Company's annual general meeting, and to require that the Company hold a new general meeting with the petitioner's nominee being included on the ballot for election as a director.

The Company filed an appearance in relation to the Petition. The Company believed that the Petition was defective and filed a motion to adjourn the Petition, which application was accepted by the Supreme Court of British Columbia, with the Petitioners being ordered to pay \$1,500 in costs. The Court also adjourned the hearing of the Petition scheduled for October 26, 2007, with the petitioners being ordered to amend the Petition within 21 days and to serve all of the respondents with same.

1.15.3 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures for the period ended September 30, 2007, the first operating period of the Company. The Board of Directors has adopted the recommendations made by management in the previous quarter and has implemented the procedures to ensure cohesive administration of financial and disclosure matters. Management and the Board have found those disclosure controls and procedures to be adequate for the above purposes.

1.15.4 Subsequent Event

There are no subsequent events to report.

1.15.5 Additional information

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