

Klondex Mines Ltd.
Consolidated Financial Statements
December 31, 2005

Klondex Mines Ltd.**Consolidated Financial Statements**

December 31, 2005

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Auditors' Report

**To the Shareholders of
Klondex Mines Ltd.**

We have audited the consolidated balance sheets of Klondex Mines Ltd. as at December 31, 2005, and 2004, and the consolidated statements of loss and deficit, deferred acquisition and exploration expenses and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005, and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
April 10, 2006

"MacKay LLP"
Chartered Accountants

Klondex Mines Ltd.**Consolidated Balance Sheets**

December 31,	2005	2004
Assets		
Current		
Cash and equivalents	\$ 2,892,695	\$ 5,974,755
Marketable securities (note 3)	459,404	572
Prepaid expenses	18,017	8,459
Accounts receivable	31,237	11,019
	3,401,353	5,994,805
Rent deposit (note 4)	16,375	-
Property and equipment (note 5)	50,271	5,730
Mineral properties and related deferred expenses (note 6)	5,703,605	2,902,241
Reclamation bonds (note 7)	98,956	49,400
	\$ 9,270,560	\$ 8,952,176
Liabilities		
Current		
Accounts payable and accruals	\$ 400,052	\$ 77,469
Due to directors (note 13)	12,016	78,122
Asset retirement obligation (note 7)	45,116	45,116
	457,184	200,707
Deferred lease inducement (note 15)	13,938	-
	471,122	200,707
Shareholders' Equity		
Share capital (notes 8 and 16)	14,431,926	13,520,824
Contributed surplus (notes 8, 9 and 16)	1,318,766	744,766
Deficit	(6,951,254)	(5,514,121)
	8,799,438	8,751,469
	\$ 9,270,560	\$ 8,952,176

Approved by the Directors:

"William Solloway"

_____ Director

"Fred Baker"

_____ Director

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

For the year ended December 31,	2005	2004
Administrative Expenses		
Amortization	\$ 15,389	\$ 809
Consulting fees (note 13)	132,727	34,049
Foreign exchange	96,814	32,477
Legal, audit and accounting	84,986	95,055
Management fees (note 13)	107,487	87,720
Office and miscellaneous	92,660	42,497
Stock-based compensation (note 9)	574,000	79,000
Telephone	19,346	10,536
Transfer agent and regulatory fees	15,855	37,049
Travel, accommodation, meetings	373,886	92,760
Write-down of marketable securities	41,150	-
Interest earned	(117,167)	(4,289)
	1,437,133	507,663
Loss for the year	(1,437,133)	(507,663)
Deficit, beginning of year	(5,514,121)	(5,006,458)
Deficit, end of year	\$ (6,951,254)	\$ (5,514,121)
Basic and diluted loss per share	\$ (0.09)	\$ (0.04)
Weighted average number of shares outstanding	16,000,632	11,615,000

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

Nevada Properties

For the year ended December 31,	2005	2004
Balance, beginning of year	\$ 2,902,241	\$ 762,034
Acquisition of land	210,352	69,567
Assays and core costs	236,707	140,028
Consulting	312,634	211,690
Drilling	1,825,328	1,468,304
Field supplies and equipment	24,448	-
Lease payments, taxes and royalties	24,488	24,018
Legal	9,726	-
Maintenance fees	77,116	92,658
Mapping and sampling	-	3,434
Miscellaneous	25,235	76,613
Site reclamation	-	45,116
Site visits	55,330	-
Surveying	-	8,779
Current year expenditures	2,801,364	2,140,207
Balance, end of year	\$ 5,703,605	\$ 2,902,241

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

For the year ended December 31,	2005	2004
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (1,437,133)	\$ (507,663)
Items not involving cash		
Amortization	15,389	809
Deferred lease inducement recognized	(2,437)	-
Foreign exchange	1,621	506
Stock-based compensation	574,000	79,000
Write-down of marketable securities	41,150	-
	(807,410)	(427,348)
Change in non-cash working capital items		
Accounts receivable	(20,218)	(6,148)
Prepaid expenses	(9,558)	(8,209)
Accounts payable	49,145	17,397
	(788,041)	(424,308)
Financing activities		
Issue of share capital	900,000	7,351,000
Share issue cost, cash	11,102	(496,632)
Advances from (repayment to) directors	(66,106)	(28,692)
	844,996	6,825,676
Investing activities		
Purchase of marketable securities	(500,000)	-
Purchase of property and equipment	(43,555)	(5,090)
Rent deposit	(16,375)	-
Reclamation bonds posted	(49,556)	(49,400)
Deferred exploration and development expenditures	(2,527,926)	(2,041,911)
	(3,137,412)	(2,096,401)
Effect of foreign exchange on cash balances	(1,603)	(462)
Net increase (decrease) in cash and equivalents	(3,082,060)	4,304,505
Cash and equivalents, beginning of year	5,974,755	1,670,250
Cash and equivalents, end of year	\$ 2,892,695	\$ 5,974,755
Supplemental Cash Flow Information (note 10)		
The company had the following cash transactions:		
Interest received	\$ 117,167	\$ 4,289
Income taxes paid	\$ -	\$ -

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

1. Nature of Operations

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

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

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

2. Significant Accounting Principles

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Klondex Gold and Silver Mining Co. ("Klondex Gold"), a Washington State, U.S.A. corporation. Klondex Gold is registered to conduct business in Nevada, U.S.A. All significant inter-company transactions have been eliminated.

b) Cash and equivalents

For purposes of reporting cash flows, the company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The company places its cash and cash investments with institutions of high-credit worthiness.

c) Temporary investments

The Company has temporary investments which are carried at cost plus accrued interest and are valued at the lower of market value or cost.

d) Property and equipment

Equipment is amortized using the declining-balance method at a rate of 20% per annum for furniture and fixtures and telephone equipment and 30% per annum for computer equipment. Leasehold improvements are amortized on a straight line basis over the term of the lease.

December 31, 2005 and 2004

2. Significant Accounting Principles (continued)**e) Foreign currency translation**

Monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the year. Amortization is converted using rates prevailing at dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statements of loss.

f) Mineral properties and deferred exploration costs

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be amortized over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written-off to operations.

Recorded costs of mineral properties and deferred exploration expenditures are not intended to reflect present or future values of resource properties.

Although the company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

g) Asset retirement obligations

The Company has adopted the CICA's new Handbook Section 3110 "asset retirement obligations" which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated nominal future value.

h) Loss per share

The Company uses the treasury stock method of calculating fully diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options has an anti-dilutive impact in 2005 and 2004.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year.

December 31, 2005 and 2004

2. Significant Accounting Principles (continued)**i) Financial instruments**

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

j) Share capital

- i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the company.
- ii) Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the company's shares are charged directly to share capital.

k) Income taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

l) Stock-based compensation

The Company has adopted the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("Section 3870"). The Company measures all compensation costs at fair value. Compensation is reflected in the consolidated statement of operations over the vesting period.

m) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those reported.

n) Measurement uncertainty

The amounts recorded for amortization of property and equipment, the future recovery of the recorded cost of the properties, and the provision for a future asset retirement obligation are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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

December 31, 2005 and 2004

3. Marketable securities

During the year the Company purchased convertible unsecured subordinated 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 of the Trust. At December 31, 2005 the market value of the debentures was \$458,850 and accordingly a write-down of \$41,150 was recorded.

The company also holds 100 shares of Coeur D'Alene Mines with a book value of US\$475 and a market value of US\$400.

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.

5. Property and Equipment

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
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
	\$ 70,412	\$ 20,141	\$ 50,271

	December 31, 2004		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 8,268	\$ 3,728	\$ 4,540
Telephone equipment	1,376	429	947
Furniture and fixtures	881	638	243
	\$ 10,525	\$ 4,795	\$ 5,730

December 31, 2005 and 2004

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 fiscal 2003 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 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 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.

In the first quarter of this year, 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). These new acquisitions bring the total acreage to 5,185 acres.

b) Maggie Creek, Elko County, Nevada

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

c) Corral Canyon, Lander County, Nevada

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

d) Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (1,080 acres). They lie directly north-east of Fire Creek along the Mule Canyon-Fire Creek-Buckhorn volcanic trend. These claims provide access to the northern Fire Creek block from the powerline road.

e) Hot Point Springs, Lander County, Nevada

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

f) Reef claims, Churchill county, Nevada

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

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

December 31, 2005 and 2004

7. Asset Retirement Obligation

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

8. Share Capital

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

b) **Issued**

	Shares	Amount	Contributed Surplus
Balance December 31, 2003	11,221,317	\$ 6,870,847	\$ 461,375
Issued for cash			
Private placement	3,290,000	6,251,000	-
Exercise of options	50,000	32,500	-
Exercise of warrants	1,090,000	1,086,500	(19,000)
Share issue costs			
Commission	-	(437,570)	-
Broker warrants	-	(223,391)	223,391
Legal and other fees	-	(59,062)	-
Stock based compensation	-	-	79,000
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
Balance, December 31, 2005	17,151,317	\$ 14,431,926	\$ 1,318,766

c) **Options outstanding**

A summary of the Company's outstanding stock options as of December 31, 2005 and 2004 and the changes during the year then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding and exercisable at December 31, 2003	884,750	\$ 0.65
Options granted	150,000	0.65
Options exercised	(50,000)	0.65
Outstanding and exercisable at December 31, 2004	984,750	0.65
Options granted	580,381	1.05
Options exercised	-	-
Outstanding and exercisable at December 31, 2005	1,565,131	\$ 0.80

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

December 31, 2005 and 2004

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

At December 31, 2005, there were 1,565,131 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
834,750	\$ 0.65	November 29, 2008
150,000	\$ 0.65	June 29, 2009
580,381	\$ 1.05	June 10, 2010
1,565,131		

d) Warrants outstanding

A summary of the Company's outstanding share purchase warrants at December 31, 2005 and 2004 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2003	2,600,000	\$ 0.67
Warrants exercised	(1,090,000)	0.98
Warrants granted	230,300	1.90
Warrants granted	1,645,000	2.35
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
Outstanding and exercisable at December 31, 2005	1,875,300	\$ 2.29

At December 31, 2005, there were 1,875,300 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
230,300	\$ 1.90	May 26, 2006
1,645,000	\$ 2.35	May 26, 2006
1,875,300		

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

December 31, 2005 and 2004

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.

The fair value of each option granted in 2005 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2005	2004
Dividend rate	0.00 %	0.00 %
Risk-free interest rate	3.30 %	4.50 %
Expected life	5 years	5 years
Expected annual volatility	103 %	95 %
Strike price	\$ 1.05	\$ 0.65
Spot price	\$ 1.25	\$ 0.65

As disclosed in Note 8(c), the Company issued 580,381 options during the fiscal year December 31, 2005 (2004 - 150,000).

Using the above assumptions the fair value of each option granted was \$0.99 (2004 - \$0.53). Compensation expense of \$574,000 has been expensed in the statement of operations and credited to contributed surplus for the fiscal year December 31, 2005 (2004- \$79,000).

10. Non Cash Transactions

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

December 31,	2005	2004
Financing activity – warrants issued	\$ -	\$ 223,391
Investing activity – asset retirement obligation	\$ -	\$ 45,116

11. Income Taxes

At December 31, 2005, the Company has Canadian tax losses of approximately \$642,886 available for carry-forward and will expire as late as 2015. The Company has US tax losses of approximately \$2,733,139 available for carry-forward and will expire as late as 2025.

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

December 31, 2005 and 2004

11. Income Taxes (continued)

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2005	2004
Net loss for the year	\$ (1,437,133)	\$ (507,663)
Statutory Canadian corporate tax rate	34.12%	35.62%
Anticipated tax expense (recovery)	(490,350)	(180,830)
Change in tax rates resulting from:		
Rate differential due to foreign operation	81,802	44,705
Items not deductible for tax purposes	199,490	29,275
Items recognized for tax purposes	(38,803)	(40,509)
Unrecognized benefit of non-capital losses	247,861	147,359
Actual income tax recovery	\$ -	\$ -

The significant components of the Company's future tax assets are as follows:

	2005	2004
Property and equipment	\$ 2,516	\$ 2,065
Exploration deductions	112,748	161,023
Share issue costs	145,387	160,301
Capital loss	4,904	5,407
Non-capital loss carry forwards	629,324	465,088
	894,879	793,884
Valuation allowance	(894,879)	(793,884)
Net future tax assets	\$ -	\$ -

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 December 31, 2005 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 40,601
Marketable securities	\$ 475
Reclamation bonds	\$ 83,503
Accounts payable	\$ 290,644
Due to Directors	\$ 5,500

At December 31, 2005 US dollar amounts were converted at a rate of \$1.16602 Canadian dollars to \$1.00 US dollar.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

12. Financial Instruments (continued)

b) Credit risk

At December 31, 2005 the Company held a treasury bill and marketable securities of \$3,248,222 (2004 - \$4,739,000) 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 year, the Company paid consulting fees of \$90,500 (2004 - \$27,750) and mineral property services of \$76,700 (2004 - \$10,000) to 3 companies controlled by each of 2 directors and an officer.
- b) During the year, the Company incurred management fees of \$78,447 (2004 - \$72,120) to the President.
- c) During the year, the Company incurred management fees of \$29,040 (2004 - \$15,600) and rent of \$7,260 (2004 - \$5,430) to a director of the wholly-owned subsidiary.
- d) Amounts owing to directors and officers of the parent company and the wholly owned subsidiary of \$12,016 (2004 - \$78,122) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

14. Segmented Information

2005	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	1,009,299	427,834	1,437,133
Loss for the year	\$ (1,009,299)	\$ (427,834)	\$ (1,437,133)
Identifiable assets	\$ 3,392,766	\$ 5,877,794	\$ 9,270,560

2004	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	290,856	216,807	507,663
Loss for the year	\$ (290,856)	\$ (216,807)	\$ (507,663)
Identifiable assets	\$ 5,881,474	\$ 3,070,702	\$ 8,952,176

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

15. Commitments

As at December 31, 2005, the Company has shared lease commitments for office space expiring in February 2010. Minimum lease payments including estimated taxes and excluding operating costs for each of the next five years are as follows:

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

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

16. Subsequent Events

On March 9, 2006, the Company entered into an agreement with Quest Securities Corporation ("Quest") pursuant to which Quest will act as the Company's agent to place, on a best efforts basis, up to 2.75 million units at \$2.25 per unit. Quest has the option to increase the offering by up to an additional 500,000 units, the placement of which would result in total gross proceeds of up to \$7,312,500 to the Company. 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.

Quest will receive a cash commission of 7.0% of the gross proceeds received from the sale of the units. Quest will also receive that number of broker warrants as is equal to 7.0% of the total number of units sold. Each broker warrant will be exercisable to purchase one unit for a period of 18 months from closing at a price of \$2.25 per unit.

The fair value of the broker warrants equal to 7% of the total number of units sold 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	3.94 %	Strike price	\$ 2.25
Expected life	18 Months	Spot price	\$ 2.25

Using the above assumptions, the fair value of each warrant granted is \$1.41. Share issue costs of \$239,000 will be recorded for the year ended December 31, 2006.

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.