

**Klondex Mines Ltd.**

**Interim Consolidated Financial Statements**

**March 31, 2005**

**(Unaudited)**

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

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**March 31, 2005**

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## UNAUDITED INTERIM FINANCIAL STATEMENTS

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

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### NOTICE TO READER

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The interim balance sheet as at March 31, 2005 and the interim statements of loss and deficit, and the interim statements of cash flows for the three month period then ended are the responsibility of the Company's management.

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

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

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William J. Solloway, Director  
Vancouver, BC Canada  
May 15, 2005

***/s/ Fred Baker***

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Fred Baker  
Vancouver, BC Canada  
May 15, 2005

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

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	March 31 2005	December 31 2004
<b>Assets</b>		
<b>Current</b>		
Cash (note 7)	\$ 4,853,463	\$ 5,974,755
Marketable securities	578	572
Prepaid expenses	28,251	8,459
Accounts receivable	20,115	11,019
	<b>4,902,407</b>	5,994,805
<b>Property and equipment</b> (note 3)	<b>38,107</b>	5,730
<b>Mineral properties and related deferred expenses</b> (note 4)	<b>3,673,997</b>	2,902,241
<b>Reclamation bonds</b> (note 5)	<b>49,400</b>	49,400
	<b>\$ 8,663,911</b>	<b>\$ 8,952,176</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 66,679	\$ 77,469
Due to directors (note 8)	5,895	78,122
Asset retirement obligation (note 5)	45,116	45,116
	<b>117,690</b>	200,707
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 6)	<b>13,520,824</b>	13,520,824
<b>Contributed surplus</b>	<b>744,766</b>	744,766
<b>Deficit</b>	<b>(5,719,369)</b>	(5,514,121)
	<b>8,546,221</b>	8,751,469
	<b>\$ 8,663,911</b>	<b>\$ 8,952,176</b>

**Approved by the Directors:**

*"William J. Solloway"*

\_\_\_\_\_ Director

*"Fred Baker"*

\_\_\_\_\_ Director

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

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<b>For the three months ended March 31,</b>	<b>2005</b>	<b>2004</b>
<b>Administrative Expenses</b>		
Amortization	\$ 2,810	\$ 100
Consulting fees	21,101	1,200
Foreign exchange (gain)	11,484	2,091
Legal, audit and accounting	13,566	35,771
Management fees	25,738	3,954
Office and miscellaneous	28,212	8,492
Telephone	4,113	954
Transfer agent and regulatory fees	6,942	1,194
Travel, accommodation, meetings	93,601	1,594
Interest earned	(2,319)	(1,942)
	<b>205,248</b>	<b>53,408</b>
<b>Loss for the period</b>	<b>(205,248)</b>	<b>(53,408)</b>
<b>Deficit, beginning of period</b>	<b>(5,514,121)</b>	<b>(5,006,458)</b>
<b>Deficit, end of period</b>	<b>\$ (5,719,369)</b>	<b>\$ (5,059,866)</b>
<b>Loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of shares outstanding</b>	<b>15,651,317</b>	<b>11,221,317</b>

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

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<b>Nevada Properties</b>	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Balance, beginning of period	\$ 2,902,241	\$ 762,034
Acquisition of land	65,686	69,567
Assays and core costs	56,358	140,028
Consulting	64,942	211,690
Drilling	556,120	1,468,304
Lease payments, taxes and royalties	6,183	24,018
Maintenance fees	-	92,658
Mapping and sampling	-	3,434
Miscellaneous	22,467	76,613
Surveying	-	8,779
Site reclamation	-	45,116
Current period expenditures	771,756	2,140,207
<b>Balance, end of period</b>	<b>\$ 3,673,997</b>	<b>\$ 2,902,241</b>

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

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<b>For the three months ended March 31,</b>	<b>2005</b>	<b>2004</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	\$ (205,248)	\$ (53,408)
Items not involving cash		
Amortization	2,810	100
Foreign exchange – unrealized	(6)	(7)
	<b>(202,444)</b>	<b>(53,315)</b>
<b>Change in non-cash working capital items</b>		
Accounts receivable	(9,096)	(2,308)
Prepaid expenses	(19,792)	(5,444)
Accounts payable	(10,790)	9,768
	<b>(242,122)</b>	<b>(51,299)</b>
<b>Financing activity</b>		
Advances from (repayment to) directors	(72,227)	(5,551)
	<b>(72,227)</b>	<b>(5,551)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(35,187)	-
Reclamation bonds posted	-	(7,872)
Deferred exploration and development expenditures	(771,756)	(126,116)
	<b>(806,943)</b>	<b>(133,988)</b>
<b>Net increase (decrease) in cash and deposits</b>	<b>(1,121,292)</b>	<b>(179,736)</b>
<b>Cash and short-term deposits, beginning of period</b>	<b>5,974,755</b>	<b>1,670,250</b>
<b>Cash and short-term deposits, end of period</b>	<b>\$ 4,853,463</b>	<b>\$ 1,490,514</b>

**March 31, 2005**

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**1. Nature of Operations**

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

These financial statements have been prepared in accordance with 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.

**b) Cash and cash equivalents**

For purposes of reporting cash flows, the company considers cash and short-term investments 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) 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.

**d) 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.

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**2. Significant Accounting Principles (continued)****e) 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 and development 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.

**f) 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.

**g) 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 share outstanding during the period.

**h) 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.

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

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**March 31, 2005**

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

**j) 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.

**k) Stock-based compensation**

Effective January 1, 2004, the Company adopted, on a retroactive basis, the revised recommendations of Section 3870 with respect to the recognition, measurement, and disclosure of stock-based compensation and other stock based payments. Under this policy the Company is required to value all stock-based compensation granted using the fair value method, as determined using the Black-Scholes option valuation model.

**l) 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.

**3. Property and Equipment**

	<b>31 – Mar – 05</b>		<b>31 – Dec – 04</b>	
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>	<b>Net book value</b>
Computer equipment	\$ 9,852	\$ 3,949	\$ 5,903	\$ 4,540
Telephone equipment	1,376	478	898	947
Furniture and fixtures	34,483	3,178	31,305	243
	<b>\$ 45,711</b>	<b>\$ 7,605</b>	<b>\$ 38,107</b>	<b>\$ 5,730</b>

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**March 31, 2005**

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**4. Mineral Property and Related Deferred Exploration and Development 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. 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.

During the first quarter ended March 31, 2005, the Company acquired 5 additional blocks of land, which totaled 130 acres for \$Cdn\$65,686 (US\$53,594). This acquisition brings to total acreage to 5,085 acres.

**b) Swales Mountain, Elko County, Nevada**

The Company has a 100% ownership interest in 14 claims (280 acres) approximately 13 miles east of Newmont Mining Corporation's Carlin Mine and about 8 miles northeast of its Gold Quarry Mine. This interest was dropped during the year ended December 31, 2003 and the Company has no further obligation.

**c) 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.

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

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

**e) 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.

**f) 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.

**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. Anomalous gold and silver have been detected along a siliceous reef which runs approximately a half mile in length.

**5. Asset Retirement Obligation**

Included in the carrying value of the mineral properties is \$45,116 representing the fair value of a liability for asset retirement obligations that arose as a result of drilling activities during fiscal 2004 on the Fire Creek properties. The fair value of the liability \$45,116 was determined to be equal to the estimated drill well site remediation costs of as it is assumed that remediation would commence within six months of year end. As at March 31, 2005 the company had 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.

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

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**March 31, 2005**

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**6. Share Capital**a) **Authorized:** 20,000,000 common shares with no par valueb) **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	<b>15,651,317</b>	<b>\$ 13,520,824</b>	<b>\$ 744,766</b>
<b>Balance, March 31, 2005</b>	<b>15,651,317</b>	<b>\$ 13,520,824</b>	<b>\$ 744,766</b>

c) **Options outstanding**

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

	Number of options	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
<b>Outstanding and exercisable at March 31, 2005</b>	<b>984,750</b>	<b>\$ 0.65</b>

At March 31, 2005, there were 984,750 stock options outstanding 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
<b>984,750</b>		

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

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**March 31, 2005**

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

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

	# of warrants	Exercise price
Outstanding and exercisable at December 31, 2003	2,600,000	\$ 0.50 – 1.25
Warrants exercised	(1,090,000)	0.50 – 0.60
Warrants granted	230,300	0.65 – 1.25
Warrants granted	1,645,000	
Outstanding and exercisable at December 31, 2004	3,385,300	\$ 0.60 – 2.35
<b>Outstanding and exercisable at March 31, 2005</b>	<b>3,385,300</b>	<b>\$ 0.60 – 2.35</b>

At March 31, 2005, there were 3,385,300 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
1,500,000	\$0.60	October 10, 2005
10,000	\$1.25	June 19, 2005
230,300	\$1.90	May 26, 2005
1,645,000	\$2.35	May 26, 2006
<b>3,385,300</b>		

**7. Financial Instruments****a) Credit risk**

At March 31, 2005 the Company held cash of \$4,636,891 (December 31, 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.

**b) Currency risk**

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

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

	US Dollars
Cash	\$ 106,366
Marketable securities	\$ 475
Reclamation bonds	\$ 41,003
Accounts payable	\$ 10,251
Due to Directors	\$ 4,842
Asset retirement obligation	\$ 37,487

At March 31, 2005 US dollar amounts were converted at a rate of \$1.2173 Canadian dollars to \$1.00 US dollar.

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

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**8. 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 management fees of \$18,384 (2004 - \$nil) to the President.
- b) During the period, the Company incurred management fees of \$7,354 (2004 - \$3,954) and rent of \$1,826 (2004 - \$1,384) to an officer.
- c) During the period, the Company paid consulting fees of \$9,000 (2004 - \$750) to a company controlled by a director.
- d) During the period, the Company paid mineral property services (deferred consulting fees) of \$16,500 (2004 - \$nil) to a company controlled by a director.
- e) During the period, the Company paid corporate and admin fees of \$7,500 (2004 - \$Nil) to a company controlled by an officer.
- f) Amounts owing to a director and an officer of \$5,895 (2004 - \$Nil) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

**9. Segmented Information**

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