# Klondex Mines Ltd.

## Interim Consolidated Financial Statements

**June 30, 2005**

**(Unaudited)**

# Klondex Mines Ltd.

**Interim Consolidated Financial Statements**

**June 30, 2005**

## 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 June 30, 2005 and the interim statements of loss and deficit, and the interim statements of cash flows for the six month period then ended are the responsibility of the Company's management.

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

***/s/ William J. Solloway***
William J. Sollway, Director
Vancouver, BC Canada
August 25, 2005

***/s/ Fred Baker***
Fred Baker
Vancouver, BC Canada
August 25, 2005

# Klondex Mines Ltd.

**Interim Consolidated Balance Sheets**

| | | June 30, 2005 | | December 31, 2004 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash (note 7) | $ | 4,331,437 | $ | 5,974,755 |
| Marketable securities | | 584 | | 572 |
| Prepaid expenses | | 30,770 | | 8,459 |
| Accounts receivable | | 16,521 | | 11,019 |
| Due from related party (note 8) | | 6,676 | | - |
| | | 4,385,988 | | 5,994,805 |
| **Property and equipment** (note 3) | | 37,968 | | 5,730 |
| **Mineral properties and related deferred expenses** (note 4) | | 3,929,342 | | 2,902,241 |
| **Reclamation bonds** (note 5) | | 101,620 | | 49,400 |
| | $ | 8,454,918 | $ | 8,952,176 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accruals | $ | 37,278 | $ | 77,469 |
| Due to directors | | - | | 78,122 |
| Asset retirement obligation (note 5) | | 45,116 | | 45,116 |
| | | 82,394 | | 200,707 |
| **Shareholders' Equity** | | | | |
| **Share capital** (note 6) | | 13,520,824 | | 13,520,824 |
| **Contributed surplus** (note 6) | | 744,766 | | 744,766 |
| **Deficit** | | (5,893,066) | | (5,514,121) |
| | | 8,372,524 | | 8,751,469 |
| | $ | 8,454,918 | $ | 8,952,176 |

**Approved by the Directors:**

*"William J. Solloway"*
_________________________ Director

*"Fred Baker"*
_________________________ Director

## Klondex Mines Ltd.

### Interim Consolidated Statements of Loss and Deficit

| | Three months ended June 30, 2005 | 2004 | Six months ended June 30, 2005 | 2004 |
|---|---|---|---|---|
| **Administrative Expenses** | | | | |
| Amortization | $ 659 | $ 101 | **$ 3,469** | $ 201 |
| Consulting fees | 30,899 | 1,200 | **52,000** | 2,400 |
| Foreign exchange (gain) | 13,002 | 5,163 | **24,486** | 7,254 |
| Legal, audit and accounting | 27,189 | 5,604 | **40,755** | 41,375 |
| Management fees | 26,206 | 4,029 | **51,944** | 7,983 |
| Office and miscellaneous | 11,710 | 24,380 | **39,922** | 32,872 |
| Telephone | 9,003 | 1,833 | **13,116** | 2,787 |
| Transfer agent and regulatory fees | 5,294 | 8,142 | **12,236** | 9,336 |
| Travel, accommodation, meetings | 50,722 | 11,038 | **144,323** | 12,632 |
| Interest earned | (987) | (1,025) | **(3,306)** | (2,967) |
| | **173,697** | 60,465 | **378,945** | 113,873 |
| **Loss for the period** | **(173,697)** | (60,465) | **(378,945)** | (113,873) |
| **Deficit, beginning of period** | **(5,719,369)** | (5,059,866) | **(5,514,121)** | (4,767,583) |
| **Adjustment to reflect change in accounting for employee, director and officer stock options** | **-** | - | **-** | (238,875) |
| **Deficit, end of period** | **$ (5,893,066)** | $ (5,120,331) | **$ (5,893,066)** | $ (5,120,331) |
| **Weighted average loss per share** | | | **$ (0.02)** | $ (0.01) |
| **Weighted average number of shares outstanding** | | | **15,651,317** | 11,221,317 |

## Klondex Mines Ltd.

### Interim Consolidated Statements of Deferred Acquisition and Exploration Expenses

| **Nevada Properties** | **Three months ended June 30, 2005** | 2004 | **Six months ended June 30, 2005** | 2004 |
|---|---|---|---|---|
| Balance, beginning of period | **$ 3,673,997** | $ 884,586 | **$ 2,902,241** | $ 758,470 |
| Assays | **60,087** | - | **116,445** | - |
| Consulting | **104,622** | 56,148 | **121,122** | 91,381 |
| Drilling | **54,170** | 620,677 | **610,290** | 699,554 |
| Land acquisition | **53,344** | - | **119,030** | - |
| Lease payments, taxes and royalties | **(128)** | - | **6,054** | - |
| Mapping and sampling | **(48,896)** | - | **(454)** | 1,897 |
| Miscellaneous | **32,146** | 7,962 | **54,614** | 9,182 |
| Surveying | **-** | - | **-** | 8,889 |
| Balance, end of period | **$ 3,929,342** | $ 1,569,373 | **$ 3,929,342** | $ 1,569,373 |

## Klondex Mines Ltd.

### Interim Consolidated Statements of Cash Flows

| | Three months ended June 30, 2005 | Three months ended June 30, 2004 | Six months ended June 30, 2005 | Six months ended June 30, 2004 |
|---|---|---|---|---|
| **Cash provided by (used in)** | | | | |
| **Operating activities** | | | | |
| Loss for the period | **$ (173,697)** | $ (60,465) | **$ (378,945)** | $ (113,873) |
| Items not involving cash | | | | |
| Amortization | **659** | 101 | **3,469** | 201 |
| Foreign exchange - unrealized | **(6)** | (11) | **(12)** | (18) |
| | **(173,044)** | (60,375) | **(375,488)** | (113,690) |
| **Change in non-cash working capital** | | | | |
| Accounts receivable | **3,594** | 3,868 | **(5,502)** | 1,560 |
| Prepaid expenses | **(2,519)** | 2,083 | **(22,311)** | (3,361) |
| Accounts payable | **(29,401)** | (9,681) | **(40,191)** | 87 |
| | **(201,370)** | (64,105) | **(443,492)** | (115,404) |
| **Financing activity** | | | | |
| Due to related party | **(12,571)** | (120,638) | **(84,798)** | (115,087) |
| **Investing activities** | | | | |
| Reclamation bond posted | **(52,220)** | (14,449) | **(52,220)** | (22,321) |
| Deferred exploration and development expenses | **(255,345)** | (684,787) | **(1,027,101)** | (810,903) |
| Purchase of property & equipment | **(520)** | - | **(35,707)** | - |
| | **(308,085)** | (699,236) | **(1,115,028)** | (833,224) |
| **Net decrease in cash** | **(522,026)** | (883,979) | **(1,643,318)** | (1,063,715) |
| **Cash, beginning of period** | **4,853,463** | 1,490,514 | **5,974,755** | 1,670,250 |
| **Cash, end of period** | **$ 4,331,437** | $ 606,535 | **$ 4,331,437** | $ 606,535 |

## 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 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.

### b) Cash and cash 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) 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.

## 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.

## 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

| | | **30-June – 05** | | 31 – Dec – 04 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | Net book value |
| Computer equipment | $ 9,852 | $ 4,172 | $ 5,680 | $ 4,540 |
| Telephone equipment | 1,376 | 528 | 848 | 947 |
| Furniture and fixtures | 35,003 | 3,563 | 31,440 | 243 |
| | $ 46,231 | $ 8,263 | **$ 37,968** | $ 5,730 |

## 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 ensure 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). In the second quarter ended June 30, 2005, an additional 100 acres were acquired for Cdn$53,344 (US$43,415). These 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. Anomalous gold and silver have been detected along a siliceous reef which runs approximately a half mile in length.

On June 15, 2005, the Company announced that drilling will begin in the Reef gold prospect. The planned program includes a minimum 1500 feet of reverse-circulation drilling budgeted for US$50,000. If the results are encouraging, a program of core drilling will follow.

## 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 as it is assumed that remediation would commence within six months of year end.

As at June 30, 2005 the company had posted non-interest bearing bonds of $101,620 (US$83,503) with the Bureau of Land Management in the State of Nevada as security for these obligations. This amount is broken down as follows:

**a)** Fire Creek Property – $84,885 (US$70,000)
**b)** Reef Property - $7,636 (US$6,000)
**c)** Available for other projects - $9,099 (US$7,503)

## 6. Share Capital

**a) Authorized:** 20,000,000 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** |
| **Balance, June 30, 2005** | **15,651,317** | **$ 13,520,824** | **$ 744,766** |

**c) Options outstanding**

A summary of the Company's outstanding stock options as of June 30, 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 |
| **Outstanding and exercisable at June 30, 2005** | **984,750** | **$ 0.65** |

## 6. Share Capital (continued)

### c) Options outstanding (cont'd)

At June 30, 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 |
| **984,750** | | |

### d) Warrants outstanding

A summary of the Company's outstanding share purchase warrants at June 30, 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 |
| Warrants expired | (10,000) | |
| **Outstanding and exercisable at June 30, 2005** | **3,375,300** | **$ 0.60 – 2.35** |

At June 30, 2005, there were 3,375,300 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 |
| 230,300 | $1.90 | May 26, 2006 |
| 1,645,000 | $2.35 | May 26, 2006 |
| **3,375,300** | | |

## 7. Financial Instruments

### a) Credit risk

At June 30, 2005 the Company held cash of $4,022,527 (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 June 30, 2005 the company had the following financial assets and liabilities:

| | | US Dollars |
|---|---|---|
| Cash | $ | 213,414 |
| Marketable securities | $ | 475 |
| Due from Directors | $ | 5,434 |
| Reclamation bonds | $ | 83,503 |
| Accounts payable | $ | 12,740 |
| Asset retirement obligation | $ | 37,487 |

At June 30, 2005 US dollar amounts were converted at a rate of $1.2287 Canadian dollars to $1.00 US dollar.

## 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 $37,102 (2004 - $nil) to the President.

**b)** During the period, the Company incurred management fees of $14,841 (2004 - $7,983) and rent of $3,698 (2004 - $2,794) to an officer.

**c)** During the period, the Company paid consulting fees of $18,000 (2004 - $2,400) to a company controlled by a director.

**d)** During the period, the Company paid mineral property services (deferred consulting fees) of $33,000 (2004 – $4,500) to a company controlled by a director.

**e)** During the period, the Company paid corporate and admin fees of $23,000 (2004 - $Nil) to a company controlled by an officer.

**f)** Amount due from a director of $6,676 (2004 - $Nil) is non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

**9. Segmented Information**

| **June 30, 2005** | Canada | United States | Total |
|---|---|---|---|
| Revenue | $ - | $ - | $ - |
| Expenses | 197,317 | 181,628 | 378,945 |
| **Loss for the period** | **$ (197,317)** | **$ (181,628)** | **$ (378,945)** |
| **Identifiable assets** | **$ 4,213,471** | **$ 4,241,447** | **$ 8,454,918** |

# KLONDEX MINES LTD.

## MANAGEMENT DISCUSSION & ANALYSIS

**For the second quarter ended June 30, 2005**

**Directors and Officers as at August 25, 2005:**

| | |
|---|---|
| **Directors:** | William J. Solloway<br>Fred Baker<br>Robert Sibthorpe<br>John Pollock |
| **Officers:** | President – William J. Solloway<br>Executive Vice-President – Robert Eadie<br>Secretary – Fred Baker<br>Treasurer – Brendan Donohoe |
| **Contact Name:** | Fred Baker<br>Telephone: (604) 602-4935<br>Fax: (604) 602-4936 |
| **TSX Venture Exchange Symbol:** | KDX |

**Form 51-102-F1**

# KLONDEX MINES LTD.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Second Quarter Ended June 30, 2005

1.1 Date of This Report

August 25, 2005

1.2 Overall Performance

*Description of Business*

Klondex Mines Ltd. (the "Company") is a publicly listed company that trades on the TSX Venture Exchange (the "Exchange") under the symbol "KDX". The Company is in the business of owning, acquiring, exploiting, exploring and evaluating mineral properties, and either venturing or developing these properties or disposing of them when evaluation is completed.

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, 2004 | December 31, 2003 | December 31, 2002 |
|---|---|---|---|
| (a) Total revenue | Nil | Nil | Nil |
| (b) Loss before extraordinary items | | | |
| (i) Total loss | $507,663 | $611,870 | $99,666 |
| (ii) Loss per share - basic | $0.04 | $0.08 | $0.02 |
| (iii) Loss per share - diluted | $0.04 | $0.08 | $0.02 |
| (c) Net loss | | | |
| (i) Total loss | $507,663 | $611,870 | $99,666 |
| (ii) Loss per share - basic | $0.04 | $0.08 | $0.02 |
| (iii) Loss per share - diluted | $0.04 | $0.08 | $0.02 |
| (d) Total assets | $8,952,176 | $2,439,470 | $640,838 |
| (e) Total long-term liabilities | - | - | - |
| (f) Cash dividends declared per-share | N/A | N/A | N/A |

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**

**Fire Creek Gold Properties, Lander County, Nevada**

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 ensure 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). In the second quarter ended June 30, 2005, an additional 100 acres were acquired for Cdn$53,344 (US$43,415). These acquisitions bring to total acreage to 5,185 acres.

**Acquisition and Exploration expenditures:**

| | Dec.31 2004 | Additions during the period | **June 30, 2005** |
|---|---|---|---|
| ***Balance, beginning of period*** | $ 762,034 | $ - | **$ 762,034** |
| Acquisition of land | 69,567 | 119,030 | **188,597** |
| Assays & core costs | 140,028 | 116,445 | **256,473** |
| Consulting | 211,690 | 121,122 | **332,812** |
| Drilling | 1,468,304 | 610,290 | **2,078,594** |
| Lease payments, taxes and royalties | 24,018 | 6,054 | **30,072** |
| Maintenance | 92,658 | - | **92,658** |
| Mapping and sampling | 3,434 | (454) | **2,980** |
| Miscellaneous | 76,614 | 54,614 | **131,228** |
| Surveying | 8,779 | - | **8,779** |
| Site reclamation | 45,116 | - | **45,116** |
| ***Balance, end of period*** | $ 2,902,241 | $ 1,027,101 | **$ 3,929,342** |

**Exploration Results and Future Plans & Developments**

On January 18, 2005, the Company announced the start up of Phase 3 drilling program at its 100% owned Fire Creek Property, located on the Northern Nevada Rift in the Battle Mountain-Eureka Trend in Nevada.

On April 11, 2005, the Company announced the assay results from its recently completed nine hole drill program. Total amount of drilling in Phase 3 was 10,873 feet (3,315 meters) comprised of 2,940 feet (896 meters) of reverse circulation drilling to pre-collar the holes and 7,933 feet (2,419 meters) of NQ core drilling through the target zones. Significant intercepts were returned from 7 of the 9 holes, a hit-to-miss ratio in line with previous drilling at Fire Creek and above average for high grade, narrow vein deposits in Northern Nevada.

Phase 3 drilling was restricted to holes located on previously permitted sites while a new permit is acquired for road and drill pad construction for new sites. Phase 3 holes were targeted to test the updip and/or downdip continuity of gold intercepts encountered in previous drilling. Generally, intervals from Phase 3 were lower grade but longer widths than their Phase 1 and 2 equivalents on their respective sections, although the program continues to provide both narrow high grade and lower grade bulk tonnage gold-bearing intervals and the Company is pleased with the degree of continuity of gold mineralization indicated by Phase 3 drilling.

Phase 3 drilling also has provided sufficient information for the development of a geological model for the interpretation of vein orientation and the identification of favourable lithologies. The two principal vein sets (Main and West) in the Central Area appear to dip steeply toward each other, mirroring the graben structures typical of the Northern Nevada Rift. Brittle basalts and dykes appear to form more receptive host rocks for gold deposition than the underlying tuffs. It is hoped that this new model will help target drill holes during the upcoming Phase 4 program at Fire Creek.

Once the permits for additional drill sites are received, the Company plans an aggressive step-out program in Phase 4 to increase the extent of known mineralization and test other prospective areas along the mineralizing structures on the Fire Creek Property. This property is entering an advanced exploration stage with additional work required including metallurgical testing, resource calculations and geotechnical studies. The Company is also reviewing data on its other properties in Nevada, including its Reef property in Churchill County, for possible exploration activity in 2005.

The Company is currently engaged in the following activities;

- Phase 4 program is being prepared for the resumption of drilling in late May pending favourable climactic conditions and the permit approval. This program will be larger than Phase 3 and will emphasize resource expansion and the testing of new areas.
- A drill program is being designed for the Company’s Reef Prospect located in the Fairchild District of Churchill County, Nevada. This program can commence prior to the beginning of Phase 4 at Fire Creek
- The results of metallurgical testing performed by a senior mining company on Fire Creek drill samples are being reviewed by Westcoast Mineral Testing Inc. of North Vancouver, the Company’s metallurgical consultants.
- An ‘inferred mineral resource’ estimate is being prepared by Minquest, Inc. of Reno, Nevada, the Company’s geological consultants.

On May 18, 2005, the Company announced the completion of an "Indicated Resource" study as defined by National Instrument 43-101at its 100% owned Fire Creek Property.

Methodology

Using 50 meter (164 feet) cross-sections and long sections, tonnages and average gold grades were determined for 8 veins in the Main zone, 3 veins from the West zone and 1 broad vein zone at Far North. Along strike veins were constrained to the lesser of half the distances to the next intercepts or 50 meters (164 feet). Down dip, veins were constrained to the lesser of half the distance to intercepts above and below or 61 meters (200 feet). The true thicknesses of the vein intercepts were determined using geologic interpretation of the vein attitude. A minimum true thickness of 2 meters (7 feet) [a minimum mining width] was employed however. Tonnages for each vein block were determined by dividing the volume in cubic feet by 12 cubic feet per short ton. Veins less than 2 meters (7 feet) in thickness were diluted by averaging adjacent values until a 2 meter (7 foot) width was reached. No adjustment was made for mining dilution beyond 2 meters (7 feet) and there was no cutting of high values. Vein blocks with an average grade less than 10.0 g/t (0.292 oz/ton) over 2 meters (7 feet) were eliminated from the resource estimation. Veins at least 6 meters in true thickness with an average grade of at least 3.0 g/t gold were included. The resulting Indicated Resource listed above was derived by weighted averaging of the following high and low grade resources:

High Grade: 556,342 short tons grading 0.720 oz/ton (24.83 g/t) totaling 400,529 ounces
Lower Grade: 1,222,854 short tons grading 0.149 oz/ton (5.10 g/t) totaling 182,552 ounces

Because of the broad spacing of the drill intercepts Klondex considers this resource an Inferred Mineral Resource defined in National Instrument 43-101as "that part of a Mineral Resource for which quantity and grade….can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity" After additional drilling of the extensions of the resource Klondex will determine the viability of conducting a study of the economic viability of the resource.

The Company is currently permitting a 12,200 meter (40,000 feet) RC and core drilling program to test the extensions of the current resource. The majority of the drilling will test the Main and West vein zones 500 meters (1,640 feet) north and the Far North vein zone 500 meters both north and south. This program is expected to begin in June.

**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.

**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.

**Corral Canyon, Lander County, Nevada**

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

**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.

**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.

**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.

On June 15, 2005, the Company announced that drilling will begin in the Reef gold prospect. The planned program includes a minimum 1500 feet of reverse-circulation drilling budgeted for US$50,000. If the results are encouraging, a program of core drilling will follow.

***Discussion of Operations and Financial Condition***

**Results of Operations**

The loss for the six months ended June 30, 2005 was $378,945 as compared with a loss of $113,873 for the six months ended June 30, 2004.

During the six months period, the Company's exploration activities increased. The Company was also very active in participating in conferences and exhibits. In the latter part of March 2005, two Company representatives also traveled to London, Paris, and Zurich to introduce potential investors to the Company. As a result of increased activities, the Company incurred additional management and consulting fees and travel and promotion costs. In addition, the Company moved into their new premises during the period. The major increases in the expenses for the six months were:

- Consulting fees increased by $49,600;
- Management fees increased by $43,961;
- Office and miscellaneous expenses increased by $7,050;
- Telephone increased by $10,329;
- Transfer agent & regulatory fees increased by $2,900;
- Travel and promotion increased by $131,691.

A breakdown of the "Travel and Promotion" expense is as follows:

| | | |
|---|---|---|
| Communication & Information | $ | 15,584 |
| Conferences, Shows, & Website | | 19,389 |
| Meals & Entertainment | | 10,503 |
| Press Releases & Printing | | 6,068 |
| Travel, Advertising & Promotion | | |
| - Canada & U.S.A. | | 55,683 |
| - Europe | | 37,096 |
| Total | $ | 144,323 |

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

| | | |
|---|---|---|
| Corporate & administration fees (paid to an officer) | $ | 23,000 |
| Marketing fees (paid to a director) | | 18,000 |
| Shareholders communication | | 11,000 |
| Total | $ | 52,000 |

In addition to the above increases in expenses, the Company reported a foreign exchange loss of $24,486 (June 2004 - $7,254). This foreign exchange loss is a result of the company holding monetary assets in US dollars, such as cash and bonds, which have been translated to Canadian dollars.

**Investor Relations Activities**

The Company currently has no formal arrangements with respect to investor relations. 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 a director in Canada and by the President and the Treasurer in the U.S.A..

**Financings, Principal Purposes & Milestones**

The Company was not involved in any financing during the six month period.

1.4 Summary of Quarterly Results

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

| | Q2 Jun-05 | Q1 Mar-05 | Q4 Dec-04 | Q3 Sep-04 | Q2 Jun-04 | Q1 Mar-04 | Q4 Dec-03 | Q3 Sep-03 |
|---|---|---|---|---|---|---|---|---|
| Total loss | (173,697) | (205,248) | (319,108) | (74,682) | (60,465) | (53,408) | (528,591) | (35,723) |
| Per share | ($0.02) | ($0.01) | ($0.04) | ($0.00) | ($0.00) | ($0.00) | ($0.07) | ($0.01) |
| Per share -diluted | ($0.02) | ($0.01) | ($0.04) | ($0.00) | ($0.00) | ($0.00) | ($0.07) | ($0.01) |

*Discussion*

For a detailed discussion on the second quarter-ended June 30, 2005, please refer to Section 1.4 - Results of Operations.

The loss for the year ended December 31, 2004 was $507,663 as compared with a loss of $611,870 for the year ended December 31, 2003. $238,875 stock-based compensation has been retroactively charged to the operating loss of the year ended December 31, 2003 and financial statements were restated accordingly.

The loss for the nine months ended September 30, 2004 was $188,555 as compared with a loss of $83,279 for the nine months ended September 30, 2003. The loss for the six months ended June 30, 2004 was $113,873 as compared with a loss of $47,556 for the six months ended June 30, 2003. During these periods, the Company's exploration activities increased. As a result of increased activities, there were major increases in the expenses, especially in the areas of legal, consulting, regulatory, and travel & promotion.

1.5 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 June 30, 2005, the Company's working capital was $4,303,594 (compared to $5,794,098 at December 31, 2004). The ability of the Company to successfully acquire and develop 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.

1.7 Capital Resources

The only capital resource of the Company is its mineral properties with a historical cost of $3,929,342. The Company is committed to further expenditures on the properties, as detailed in Section 1.4 Results of Operations.

1.8 Off Balance Sheet Arrangements

There is no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

Note 8 to the Financial Statements attached hereto, provides disclosure on related party transactions for the six months ended June 30, 2005, with breakdown as follows:

| **Expense** | 30-June-05 | 30-June-04 |
|---|---|---|
| Management fees | $ 51,943 | $ 7,983 |
| Consulting fees | 18,000 | 2,400 |
| Corporate & admin fees | 23,000 | - |
| Rent | 3,698 | 2,794 |
| Deferred consulting fees | 33,000 | 4,500 |
| **Total for the period** | **$ 129,641** | **$ 17,677** |

Amount due from a director of $6,676 (2004 - $Nil) is non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

1.10 Second Quarter – 2005

The second quarter results do not differ significantly from other quarters with the exception of the increase in the exploration expenditures and the general & administrative expenses related directly to such expenditures.

1.11 Proposed Transactions

None.

1.12 Critical Accounting Estimates

N/A

1.13 Changes in Accounting Policies

Effective January 1, 2004, the Company adopted, on a retroactive basis, the recommendations of the CICA with respect to the recognition, measurement, and disclosure of stock-based compensation and other stock based payments. No stock-based compensation expense was recorded during the period.

The Company also 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. This had no retroactive effect. Please refer to Note 2f of the Financial Statements.

1.14 Financial and Other Instruments

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

1.15 Other

*Disclosure of Outstanding Share Capital (June 30, 2005)*

| | Number | Book Value |
|---|---|---|
| Common Shares | 15,651,317 | $13,520,824 |

*Shares issued during the quarter: (June 30, 2005)*

| | Number | Net proceeds |
|---|---|---|
| | Nil | $Nil |

*Summary of incentive stock options: (June 30, 2005)*

| Number of Shares | Expiry Date | Exercise Price Per Share |
|---|---|---|
| 834,750 | November 29, 2008 | $0.65 |
| 150,000 | June 29, 2009 | $0.65 |
| 984,750 | | |

*Summary of warrants outstanding: (June 30, 2005)*

| Number of Shares | Expiry Date | Exercise Price |
|---|---|---|
| 1,500,000 | October 10, 2005 | $0.60 |
| 230,300 | June 19, 2006 | $1.90 |
| 1,645,000 | May 26, 2006 | $2.35 |
| 3,375,300 | | |

*Additional information*

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