

Klondex Mines Ltd.

Consolidated Financial Statements

December 31, 2004

Klondex Mines Ltd.**Consolidated Financial Statements**

December 31, 2004

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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, 2004, and 2003, 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 audit in accordance with Canadian generally accepted accounting 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, 2004, and 2003, 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
March 3, 2005

"MacKay LLP"
Chartered Accountants

Klondex Mines Ltd.**Consolidated Balance Sheets**

December 31,	2004	2003 (Restated note 2k)
Assets		
Current		
Cash (note 10)	\$ 5,974,755	\$ 1,670,250
Marketable securities	572	616
Prepaid expenses	8,459	250
Accounts receivable	11,019	4,871
	5,994,805	1,675,987
Property and equipment (note 3)	5,730	1,449
Mineral properties and related deferred expenses (note 4)	2,902,241	762,034
Reclamation bonds (note 5)	49,400	-
	\$ 8,952,176	\$ 2,439,470
Liabilities		
Current		
Accounts payable and accruals	\$ 77,469	\$ 6,892
Due to directors (note 11)	78,122	106,814
Asset retirement obligation (note 5)	45,116	-
	200,707	113,706
Shareholders' Equity		
Share capital (note 6)	13,520,824	6,870,847
Contributed surplus (notes 6 and 7)	744,766	461,375
Deficit	(5,514,121)	(5,006,458)
	8,751,469	2,325,764
	\$ 8,952,176	\$ 2,439,470

Approved by the Directors:*"William J. Solloway"*_____
Director*"Fred Baker"*_____
Director

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

For the year ended December 31,	2004	2003 (Restated note 2K)
Administrative Expenses		
Amortization	\$ 809	\$ 566
Consulting fees	34,049	5,274
Foreign exchange (gain)	32,477	(1,807)
Legal, audit and accounting	95,055	48,757
Management fees	87,720	16,762
Office and miscellaneous	42,497	31,914
Stock-based compensation (note 7)	79,000	442,375
Telephone	10,536	6,922
Transfer agent and regulatory fees	37,049	19,675
Travel, accommodation, meetings	92,760	42,092
Interest earned	(4,289)	(660)
	507,663	611,870
Loss for the year	(507,663)	(611,870)
Deficit, beginning of year	(5,006,458)	(4,394,588)
Deficit, end of year	\$ (5,514,121)	\$ (5,006,458)
Loss per share	\$ (0.04)	\$ (0.08)
Weighted average number of shares outstanding	11,615,000	7,621,797

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

Nevada Properties	2004	2003 (restated note 2k)
Balance, beginning of year	\$ 762,034	\$ 618,285
Acquisition of land	69,567	-
Assays and core costs	140,028	-
Consulting	211,690	35,877
Drilling	1,468,304	-
Lease payments, taxes and royalties	24,018	24,251
Maintenance fees	92,658	80,645
Mapping and sampling	3,434	-
Miscellaneous	76,613	2,976
Surveying	8,779	-
Site reclamation	45,116	-
Current year expenditures	2,140,207	143,749
Balance, end of year	\$ 2,902,241	\$ 762,034

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

For the year ended December 31,	2004	2003 (Restated note 2k)
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (507,663)	\$ (611,870)
Items not involving cash		
Amortization	809	566
Foreign exchange – unrealized	44	133
Stock-based compensation	79,000	442,375
	(427,810)	(168,796)
Change in non-cash working capital items		
Accounts receivable	(6,148)	(24,91)
Prepaid expenses	(8,209)	5,652
Accounts payable	70,578	(38,342)
	(371,589)	(203,977)
Financing activities		
Issue of share capital	7,351,000	2,001,275
Subscriptions received	-	(14,400)
Share issue cost, cash	(496,632)	(72,000)
Advances from (repayment to) directors	(28,692)	91,594
	6,825,676	2,006,469
Investing activities		
Purchase of property and equipment	(5,090)	-
Reclamation bonds posted	(49,400)	-
Deferred exploration and development expenditures	(2,095,092)	(71,143)
	(2,149,582)	(71,143)
Net increase in cash and deposits	4,304,505	1,731,349
Cash and short-term deposits, beginning of year	1,670,250	11,517
Cash and short-term deposits, end of year	\$ 5,974,755	\$ 1,670,250
Supplemental Cash Flow Information (note 8)		
The company had the following cash transactions:		
Interest received	\$ 4,289	\$ 660

December 31, 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 had interests in the 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.

December 31, 2004

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 2004 and 2003.

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

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.

December 31, 2004

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

In fiscal 2002, the Company adopted the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("Section 3870"), which recommended the fair value-based method for measuring compensation costs. The Company was permitted, and elected to adopt, the intrinsic value-base method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at the date of the grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to capital stock.

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. The effect of retroactively adopting the fair value based method of accounting for stock-based compensation is to increase net loss for the year ended December 31, 2003 by \$238,875 and increase deficit and contributed surplus as at December 31, 2003 by \$238,875.

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.

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

December 31, 2004

3. Property and Equipment

	December 31, 2004		December 31, 2003	
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	\$ 8,268	\$ 3,728	\$ 4,540	\$ 1,145
Telephone equipment	1,376	429	947	-
Furniture and fixtures	881	638	243	304
	\$ 10,525	\$ 4,795	\$ 5,730	\$ 1,449

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. 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 year, the Company acquired 4 additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). These acquisitions were necessary to insure logistical access to the main mineralized zones and to acquire areas which represent the strike extensions of these zones.

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.

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

December 31, 2004

4. Mineral Property and Related Deferred Exploration and Development Expenses (continued)**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. At 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.

6. Share Capital

a) **Authorized:** 20,000,000 common shares with no par value

b) Issued

	Shares	Amount	Contributed Surplus
Balance, December 31, 2002	6,579,587	\$ 4,853,889	\$ -
Issued for cash			
Private placement	3,500,000	1,825,000	-
Exercise of options	690,000	176,275	-
Share issue costs			
Commission	-	(72,000)	-
Broker warrants	-	(19,000)	19,000
Finders fee	25,000	-	-
Share for debt settlement	426,730	106,683	-
Stock based compensation	-	-	442,375
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

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

December 31, 2004

6. Share Capital (continued)**c) Private placements**

- (i) On November 26, 2004, the Company issued 3,290,000 units at \$1.90 per unit, each unit consisting of one common share and one-half of a non-transferable warrant, each whole warrant exercisable into one common share for a period of eighteen months at \$2.35. A cash commission of \$437,570 was paid. In addition the underwriters received 230,300 underwriters' warrants. Each warrant entitles the underwriter to purchase one common share at a price of \$1.90, exercisable for eighteen months. The fair value of the underwriters warrants have been estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the respective warrants were: Dividend yield 0%; expected volatility 120%; a risk-free interest rate of 4.5%; and an expected life of 1.5 years. The value assigned to the 230,300 underwriters' warrants was \$223,391.
- (ii) On December 17, 2003 the company issued 2,000,000 common shares, through a private placement, for \$0.65 per share to which are attached 1,000,000 non-transferable warrants exercisable for up to eighteen months at \$0.85 per share in the first six months, \$1.00 per share in the second six months, and \$1.25 per share in the final 6 months. A finder's fee of \$72,000 was paid with respect to this private placement. The broker received 100,000 broker warrants. Each broker warrant entitles the holder thereof to purchase one common share at a price of \$0.65 until November 19, 2003. The fair value of the broker warrants have been estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the respective warrants were: Dividend yield 0%, expected volatility 50%, a risk-free interest rate of 3.04% and an expected life of two years. The value assigned to the 100,000 broker warrants was \$19,000.
- (iii) On October 15, 2003 the company issued 1,500,000 units for \$0.35 per unit, through a private placement. Each unit comprised of one common share and one non-transferable share purchase warrant, exercisable for up to two years from the date of issuance at \$0.50 per share in the first year and \$0.60 per share in the second year. An additional 25,000 common shares were issued as a finder's fee.

d) Options outstanding

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

	Number of options	Exercise price
Outstanding and exercisable at December 31, 2002	-	\$ -
Options granted	919,500	0.65
Options exercised	(34,750)	0.65
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

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

December 31, 2004

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

At December 31, 2004, 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		

e) Warrants outstanding

A summary of the Company's outstanding share purchase warrants at December 31, 2004 and 2003 and the changes during the years then ended is presented below:

	Number of warrants	Exercise price
Outstanding and exercisable at December 31, 2002	-	\$ -
Warrants granted	1,500,000	0.50 – 0.60
Warrants granted	1,100,000	0.65 – 1.25
Outstanding and exercisable at December 31, 2003	2,600,000	0.50 - 1.25
Warrants exercised	(1,090,000)	0.65 – 1.25
Warrants granted	230,300	1.90
Warrants granted	1,645,000	2.35
Outstanding and exercisable at December 31, 2004	3,385,300	\$ 0.60 – 2.35

At December 31, 2004, 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
3,385,300		

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004

7. Stock Based Compensation

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 10% of issued and outstanding common stock.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

Dividend rate	0.00 %	Expected volatility	95 %
Risk-free interest rate	4.50 %	Strike price	\$0.65
Expected life	5 years	Spot price	\$0.65

As disclosed in Note 6(d), the Company issued 150,000 options during the year.

Using the above assumptions the fair value of each option granted is \$0.53. Compensation expense of \$79,000 has been recorded for the year ended December 31, 2004.

8. Non Cash Transactions

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

December 31,	2004		2003
Operating activity – Share for debt	\$	-	\$ 106,683
Financing activity – Finder's fee	\$	-	\$ 8,750
Financing activity – warrants issued	\$	223,391	\$ -
Investing activity – asset retirement obligation	\$	45,116	\$ -

9. Income Taxes

At December 31, 2004, the Company has tax losses of approximately \$317,000 available for carry-forward to reduce future years' income taxes in Canada, expiring through 2014.

In addition the Company has available mineral resource related expenditure pools totaling approximately \$2,360,000 which may be deducted against future Canadian taxable income on a discretionary basis.

Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

Klondex Mines Ltd.

Notes to the Consolidated Financial Statements

December 31, 2004

10. Financial Instruments

a) Credit risk

At December 31, 2004 the Company held cash of \$4,739,000 (2003 - \$1,656,000) 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 December 31, 2004 the company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 93,132
Marketable securities	\$ 475
Reclamation bonds	\$ 41,003
Accounts payable	\$ 44,222
Due to Directors	\$ 64,842
Asset retirement obligation	\$ 37,487

At December 31, 2004 US dollar amounts were converted at a rate of \$1.2035 Canadian dollars to \$1.00 US dollar.

11. 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 \$27,750 (2003 - \$3,000) and mineral property services of \$10,000 (2003 - \$nil) to 2 directors, a company controlled by a director and an officer.
- b) During the year, the Company incurred management fees of \$72,120 (2003 - \$nil) to the President.
- c) During the year, the Company incurred management fees of \$15,600 (2003 - \$16,762) and rent of \$5,430 (2003 - \$6,867) to a director of the wholly-owned subsidiary.
- d) Amounts owing to the President and to a director of the wholly owned subsidiary of \$78,122 (2003 - \$106,814) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

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

December 31, 2004

12. Segmented Information

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
2003	Canada	United States	Total
Revenue	\$ -	\$ -	\$ -
Expenses	557,270	54,600	611,870
Loss for the year	\$ (557,270)	\$ (54,600)	\$ (611,870)
Identifiable assets	\$ 1,670,041	\$ 769,429	\$ 2,439,470

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the year ended December 31, 2004

Directors and Officers as at April 20, 2005:

Directors:

William J. Solloway
Fred Baker
Robert Sibthorpe
John Pollock

Officers:

President – William J. Solloway
Executive Vice-President – Robert Eadie
Secretary – Fred Baker
Treasurer – Brendan Donohoe

Contact Name:

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

TSX Venture Exchange Symbol:

KDX

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2004

1.1 Date of This Report

April 20, 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, <u>2004</u>	December 31, <u>2003</u>	December 31, <u>2002</u>
(a) Total revenue	Nil	Nil	\$170,347
(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% controlling 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 ten year farm-out 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 a consideration of US\$4,000 and issuance of 15,000 common shares of the Company.

On January 12, 2004, the Company announced that it was proceeding with a 15,000 foot drilling program estimated at US\$708,000. Funds were provided by the 2003 private placement.

On April 28, 2004, the Company announced results of the first assay. Approximately 7,000 feet of reverse circulation (RC) and 4,500 feet of core drilling have been completed. On June 10, 2004, the Company released the assay results from 7 additional holes drilled at the property. Phase 1 drilling was completed for a total of 8,940 feet of RC and 7,614 feet of core drilling in sixteen holes. For further details, please refer to the press releases dated April 28 and June 10, 2004.

On August 4, 2004, the Company announced that it had commenced Phase 2 of the drilling program. Budgeted at US\$990,000, Phase 2 will include 10,000 feet of RC and 9,000 feet of core drilling in 13 planned holes (Please refer to press releases dated October 18 & 21, 2004).

On December 29, 2004, the Company announced the final results of the Phase 2 Drilling. Phase 2 was comprised of 13 drill holes totaling 6,323 meters (20,741 feet). All holes were "pre-collared" with a reverse circulation drill to a pre-determined depth and then completed to target depth with a diamond drill rig. The first three drill holes of Phase 2 were announced during October of this year (FC 0416 through FC 0418). Of the remaining 10 drill holes for which results have now been received, six were located to extend the zone of known mineralization to the south. The other four holes were located to extend the zone of known mineralization down dip and test for parallel veins. For a detailed description of the results, please refer to the press release of December 29, 2004.

During the year, the Company acquired 4 additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). This additional acquisition brings the total to 4,955 acres. 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.

Acquisition and Exploration expenditures:

	2004	Additions during the year	2003
<i>Balance, beginning of period</i>	\$ 762,034	\$ 143,749	\$ 618,285
Acquisition of land	69,567	69,567	-
Assays & core costs	140,028	140,028	-
Consulting	211,690	175,813	35,877
Drilling	1,468,304	1,468,304	-
Lease payments, taxes and royalties	24,018	(233)	24,251
Maintenance	92,658	12,013	80,645
Mapping and sampling	3,434	3,434	-
Miscellaneous	76,613	73,637	2,976
Surveying	8,779	8,779	-
Site reclamation	45,116	45,116	-
<i>Balance, end of period</i>	\$ 2,902,241	\$ 2,140,207	\$ 762,034

Future Plans and Developments

The future plan for development of the Fire Creek property at this time is mainly to further ascertain the tonnage and grade through additional drilling. 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. Phase 3 is planned to consist of 9 drill holes totaling 3,325 meters (10,900 feet). Some holes will be "pre-collared" with a reverse circulation drill to a pre-determined depth and then completed to target depth with a diamond drill rig.

The completion of Phase 3 drilling is conditional upon weather conditions and may be altered in size and order as logistical circumstances dictate. Phase 3 will determine the vertical extent of several previous high-grade vein intercepts, including those previously reported in drill hole FC-04-17 which reported an interval of 1.52 m (5 ft) of 411 per tonne or 12.001 ounces per ton gold).

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.

Discussion of Operations and Financial Condition**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 operating of the year ended December 31, 2003 and financial statements were restated accordingly.

During the current year, the Company's exploration activities increased. In addition, the Company completed a private placement for 3,290,000 units for gross proceeds of \$6,251,000. As a result of increased activities, there were major increases in the expenses for the twelve months under the following categories:

- Accounting, audit & legal increased by \$46,298;
- Consulting fees increased by \$24,775;
- Management fees increased by \$70,958;
- Office and miscellaneous expenses increased by \$10,583;
- Telephone increased by \$3,614;
- Transfer agent & regulatory fees increased by \$17,374;
- Travel and promotion increased by \$50,668.

In addition to the above increases in expenses, the Company reported a foreign exchange loss of \$34,284. This foreign exchange loss is a result of the company holding monetary assets in US dollars, such as cash, bonds, and property, which have been translated to Canadian dollars.

The details of the expenses discussed above are as follows:

	31-Dec-04	31-Dec-03	Increase
Amortization	\$ 809	\$ 566	\$ 243
Consulting fees	30,049	5,274	24,775
Foreign exchange loss	32,477	(1,807)	34,284
Legal, audit and accounting	95,055	48,757	46,298
Management fees	87,720	16,762	70,958
Office and miscellaneous	42,497	31,914	10,583
Stock-based compensation	79,000	442,375	(363,375)
Telephone	10,536	6,922	3,614
Transfer agent & regulatory filing fees	37,049	19,675	17,374
Travel & promotion	92,760	42,092	50,668
Interest earned	(4,289)	(660)	(3629)
Total General & administrative	507,663	\$ 611,870	\$ (108,207)

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

On November 26, 2004, the Company issued 3,290,000 common shares, through a brokered private placement, at \$1.90 per share with 1,645,000 non-transferable warrants exercisable for up to eighteen months at \$2.35 per share. \$437,570 was paid as commission with respect to this private placement.

The underwriters received 230,300 underwriters' warrants. Each warrant entitles the underwriter to purchase one common share at a price of \$1.90, exercisable for eighteen months. The fair value of

the underwriters warrants have been estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the respective warrants were: Dividend yield 0%; expected volatility 120%; a risk-free interest rate of 4.5%; and an expected life of 1.5 years. The value assigned to the 230,300 underwriters' warrants was \$223,391.

On April 28, 2004, the Company announced results of the first assay. Approximately 7,000 feet of reverse circulation (RC) and 4,500 feet of core drilling had been completed. On June 10, 2004, the Company released the assay results from 7 additional holes drilled at the property. Phase 1 drilling was completed for a total of 8,940 feet of RC and 7,614 feet of core drilling in sixteen holes. For further details, please refer to the press releases dated April 28 and June 10, 2004.

On August 4, 2004, the Company announced that it had commenced Phase 2 of the drilling program. Budgeted at US\$990,000, Phase 2 will include 10,000 feet of RC and 9,000 feet of core drilling in 13 planned holes (Please refer to press releases dated October 18 & 21, 2004).

On December 29, 2004, the Company announced the final results of Phase 2 drilling program at its 100% owned Fire Creek Property, located on the Northern Nevada Rift in the Battle Mountain-Eureka Trend in Nevada. Phase 2 was comprised of 13 drill holes totaling 6,323 meters (20,741 feet). All holes were "pre-collared" with a reverse circulation drill to a pre-determined depth and then completed to target depth with a diamond drill rig. The first three drill holes of Phase 2 were announced during October of this year (FC 0416 through FC 0418). Of the remaining 10 drill holes for which results have now been received, six were located to extend the zone of known mineralization to the south. The other four holes were located to extend the zone of known mineralization down dip and test for parallel veins.

1.4 Summary of Quarterly Results

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

	Q4 Dec-04	Q3 Sep-04	Q2 Jun-04	Q1 Mar-04	Q4 Dec-03	Q3 Sep-03	Q2 Jun-03	Q1 Mar-03
Total loss	(319,108)	(74,682)	(60,465)	(53,408)	(528,591)	(35,723)	(26,449)	(21,107)
Per share	(\$0.04)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.07)	(\$0.01)	\$0.00	\$0.00
Per share -diluted	(\$0.04)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.07)	(\$0.01)	\$0.00	\$0.00

Discussion

For a detailed discussion on the year-ended December 31, 2004, please refer to Section 1.4 - Results of Operations.

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.

For the quarter ended March 31, 2004, the Company reported an increase in net loss of \$32,301 compared to the quarter ended March 31, 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.

In addition to the above increases in expenses, the Company reported a foreign exchange loss of \$34,284. This foreign exchange loss is a result of the company holding monetary assets in US dollars, such as cash, bonds, and property, which have been translated to Canadian dollars.

1.5 Liquidity (Refer to 1.15 Subsequent Events)

The Company has no revenue generating projects at this time. The Company's historical capital needs have been met by equity subscriptions (2004 - \$7,146,610; 2003 - \$2,001,275). As at December 31, 2004, the Company's working capital was \$5,794,098 (compared to \$1,562,281 at December 31, 2003). 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 \$2,902,241. 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 10 to the Financial Statements attached hereto, provides disclosure on related party transactions for the year ended December 31, 2004, with breakdown as follows:

Expense	31-Dec-04	31-Dec-03
Management fees	\$ 87,720	\$ 16,762
Consulting fees	27,750	3,000
Rent	5,430	6,867
Deferred consulting fees	<u>10,000</u>	<u>Nil</u>
Total for the period	\$ 130,900	\$ 27,629

Amounts owing to the President and a director of the wholly owned subsidiary of \$78,122 (2003 - \$106,814) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

1.10 Fourth Quarter – 2004

The fourth 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. The effect of retroactively adopting the fair value based method of accounting for stock-based compensation is to increase net loss for the year-ended December 31, 2003 by \$238,875 and increase deficit and contributed surplus as at December 31, 2003 by the same amount.

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 (December 31, 2004)

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

Shares issued during the quarter:

	Number	Net proceeds
	4,430,000	\$6,649,977

Summary of incentive stock options:

Number of Shares	Expiry Date	Exercise Price Per Share
834,750	November 29, 2008	\$0.65
150,000	June 29, 2009	\$0.65
<u>984,750</u>		

Summary of warrants outstanding:

Number of Shares	Expiry Date	Exercise Price
1,500,000	October 10, 2005	\$0.60
10,000	June 19, 2005	\$1.25
230,300	June 19, 2005	\$1.90
1,645,000	May 26, 2006	\$2.35
<u>3,385,300</u>		

Subsequent events

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. Phase 3 is planned to consist of 9 drill holes totaling 3,325 meters (10,900 feet). Some holes will be “pre-collared” with a reverse circulation drill to a pre-determined depth and then completed to target depth with a diamond drill rig.

The completion of Phase 3 drilling is conditional upon weather conditions and may be altered in size and order as logistical circumstances dictate. Phase 3 will determine the vertical extent of several previous high-grade vein intercepts, including those previously reported in drill hole 0417 (high of 1.52 m (5 ft) of 411 GRAMS P.T. or 12.001 ounces P.T. GOLD).

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. 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.

Additional information

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