

Klondex Mines Ltd.
Interim Consolidated Financial Statements
(Unaudited)
June 30, 2009

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

June 30, 2009

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

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current		
Cash and cash equivalents (note 3)	\$ 4,278,844	\$ 1,848,289
Marketable securities (note 4)	143	108
Prepaid expenses	5,951	18,102
Accounts receivable	14,024	18,322
	4,298,962	1,884,821
Rent deposit (note 5)	8,735	14,054
Property and equipment (note 6)	26,536	31,976
Mineral properties and related deferred expenses (note 7)	21,626,141	21,282,764
Reclamation bonds (note 8)	199,136	217,122
	\$ 26,159,510	\$ 23,430,737
Liabilities		
Current		
Accounts payable and accruals	\$ 587,696	\$ 988,308
Overdraft – brokerage account (note 3)	-	1,107,398
Due to related parties (note 13)	330,040	147,555
Asset retirement obligation (note 8)	199,136	217,122
	1,116,872	2,460,383
Deferred lease inducement (note 15)	2,476	4,113
	1,119,348	2,464,496
Shareholders' Equity		
Share capital (note 9)	34,431,877	29,566,689
Contributed surplus (notes 9 and 10)	2,835,781	2,186,083
Deficit	(12,227,496)	(10,786,531)
	25,040,162	20,966,241
	\$ 26,159,510	\$ 23,430,737

Nature of operations (note 1)
Commitments (notes 7, 8 and 15)

Approved on behalf of the Board of Directors:

William J. Solloway (sgd.) Director

Brendan Donohoe (sgd.) Director

The accompanying notes are an integral part of the consolidated interim financial statements.

Klondex Mines Ltd.**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit (Unaudited)**

	Three months ended		Six months ended	
	June 30,	2008	June 30,	2008
	2009		2009	
Administrative Expenses				
Amortization	\$ 2,092	\$ 2,877	\$ 5,487	\$ 5,755
Consulting fees (Note 13)	98,558	32,460	134,976	64,631
Legal, audit and accounting (Note 13)	147,102	37,802	172,739	61,534
Management fees and salaries (Note 13)	79,497	27,478	109,635	52,574
Office and miscellaneous	25,838	19,227	83,154	37,631
Other item	-	19,934	-	19,934
Stock-based compensation (Note 10)	312,717	68,568	854,148	159,170
Telephone	4,941	5,817	9,673	8,768
Transfer agent and regulatory fees	15,951	4,348	38,735	28,314
Travel, conferences and meetings	39,400	56,634	62,586	130,620
Foreign exchange (gain)	(76,196)	7,975	(28,430)	(41,186)
Interest earned	(437)	(13,672)	(1,691)	(53,784)
	649,463	269,448	1,441,012	473,961
Other item				
Unrealized gain on marketable securities	(39)	-	(47)	-
Net and comprehensive loss for the period	(649,424)	(269,448)	(1,440,965)	(473,961)
Deficit, beginning of period	(11,578,072)	(9,836,906)	(10,786,531)	(9,632,393)
Deficit, end of period	\$(12,227,496)	\$(10,106,354)	\$(12,227,496)	\$(10,106,354)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.02)
Weighted average number of shares outstanding	26,868,807	22,989,673	25,336,154	22,989,673

The accompanying notes are an integral part of the consolidated interim financial statements.

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

Nevada Properties	Six Months Ended June 30, 2009 (Unaudited)	Year Ended December 31, 2008
Balance, beginning of period	\$ 21,282,764	\$ 15,769,182
Acquisition of land	-	297,560
Advance – Drilling	-	(99,293)
Assays and core costs	25,961	549,046
Consulting	177,997	363,745
Drilling	-	3,767,091
Environmental consulting and permitting	22,559	282,918
Field supplies and equipment	14,433	155,337
Geophysics	61,949	31,123
Lease payments, taxes and royalties	-	17,944
Legal	345	1,915
Maintenance fees	579	75,351
Mapping and sampling	785	520
Miscellaneous	21,919	57,026
Site visits	16,850	13,299
Current period expenditures	343,377	5,513,582
Balance, end of period	\$ 21,626,141	\$ 21,282,764

The accompanying notes are an integral part of the consolidated interim financial statements.

Klondex Mines Ltd.**Interim Consolidated Statements of Cash Flows (Unaudited)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Cash provided by (used in)				
Operating activities				
Loss for the period	\$ (649,424)	\$ (269,448)	\$ (1,440,965)	\$ (473,961)
Items not involving cash				
Amortization	2,092	2,877	5,487	5,755
Deferred lease inducement realized	(818)	(818)	(1,637)	(1,637)
Stock based compensation	312,717	68,568	854,149	159,170
Unrealized Foreign exchange (gain) loss	11,036	6	55,327	(14)
Unrealized (gain) loss on marketable securities	(39)	-	(47)	-
	(324,436)	(198,815)	(527,686)	(310,687)
Change in non-cash working capital				
Accounts receivable	10,597	(5,286)	4,298	20,887
Prepaid expenses	(168)	(18,275)	12,151	(13,549)
Accounts payable	158,308	(38,368)	142,901	(135,326)
Rent deposit	-	-	5,319	-
	(155,699)	(260,744)	(363,017)	(438,675)
Financing activities				
Issue of share capital	3,962,750	-	4,862,750	-
Share issue cost, cash	(160,612)	-	(202,012)	-
Due to (from) related parties	112,500	41,235	170,197	43,915
	3,914,638	41,235	4,830,935	43,915
Investing activities				
Purchase of property & equipment	-	-	-	(2,032)
Accounts payable related to mineral properties	(106,419)	591,614	(566,179)	465,981
Deferred exploration	(228,103)	(2,141,385)	(343,377)	(2,850,931)
	(334,522)	(1,549,771)	(909,556)	(2,386,982)
Effect of foreign exchange on cash balances	4,837	-	(20,409)	-
Net increase (decrease) in cash and equivalents	3,429,254	(1,769,280)	3,537,953	(2,781,742)
Cash and equivalents, beginning of period	849,590	3,226,960	740,891	4,239,422
Cash and equivalents, end of period	\$ 4,278,844	\$ 1,457,680	\$ 4,278,844	\$ 1,457,680

Supplemental Cash Flow Information (notes 3 and 11)

The Company had the following cash transactions:

Interest received	\$ 437	\$ 13,672	\$ 1,691	\$ 53,784
Income taxes paid	-	-	-	-

The accompanying notes are an integral part of the consolidated financial statements.

Klondex Mines Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

June 30, 2009

1. Nature of Operations

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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. As at June 30, 2009, the Company had working capital of \$3,182,090 (December 31, 2008 - \$575,562 working capital deficit). 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. The Company is considering a number of alternatives to secure additional capital including additional funding facilities or equity raisings.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the Company's annual audited financial statements for the year ended December 31, 2008 for additional information.

Accounting Polices to be Adopted

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

3. Cash and cash equivalents

	June 30, 2009	December 31, 2008
Cash on deposit	\$ 3,384,431	\$ 308,429
Jones Gable Canadian and US \$ accounts	894,413	1,539,860
	4,278,844	1,848,289
Jones Gable US account (overdraft)	-	(1,107,398)
	\$ 4,278,844	\$ 740,891

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

June 30, 2009

4. Marketable securities

On May 18, 2009, Coeur D'Alene announced a reverse stock split at a split ratio of 1-for-10. The reverse stock split took effect on May 26, 2009. As at June 30, 2009, the Company holds 10 shares of Coeur D'Alene Mines with a market value of \$143 (US\$123).

5. Rent Deposit

As part of the lease agreement, the Company paid the last three months of the fourth year (2009) and the last four months of the fifth year (2010) of the lease term in advance. During the period, the Company received a partial refund of \$5,319. These deposits bear interest at approximately 4% per annum, receivable at the end of the fourth and fifth year of the lease term.

6. Property and Equipment

	June 30, 2009		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,905	\$ 25,465	\$ 12,440
Telephone equipment	1,376	1,001	375
Furniture and fixtures	29,068	19,907	9,161
Leasehold improvements	24,736	20,176	4,560
	\$ 93,085	\$ 66,549	\$ 26,536

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 37,905	\$ 23,205	\$ 14,700
Telephone equipment	1,376	964	412
Furniture and fixtures	29,068	18,838	10,230
Leasehold improvements	24,736	18,102	6,634
	\$ 93,085	\$ 61,109	\$ 31,976

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

The Company has a 100% ownership interest in this land block which has been expanded to a total of 484 claims, or 9,680 acres, and fee lands of 1,428 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 fiscal 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.

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

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7. Mineral Property and Related Deferred Exploration Expenses (continued)**b) Lander & Eureka Counties, Nevada**

During fiscal 2006, the Company entered into an option agreement to acquire a 100% interest (the "Option") in certain lands located in Lander & Eureka Counties, Nevada (the "Property"), from Fire Creek Lands, LLC (the "Optionor"). In consideration of the Option, the Company must make option payments in the aggregate amount of \$380,000 over a period of five years (US\$255,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

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

c) Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area.

d) Hot Point Springs, Lander County, Nevada

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley.

e) Reef claims, Churchill County, Nevada

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

8. Asset Retirement Obligation

Included in the carrying value of the mineral properties is \$199,136 (US\$171,300) representing the estimated fair value of a liability for asset retirement obligations that arose as a result of drilling activities since fiscal 2004, on the Fire Creek properties. The fair value of the liability \$199,136 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, 2009 the Company has not commenced development of any property and accordingly a reasonable estimate of the timing of the cash flows can not be made. As a result the expected cash costs have been recorded as a current liability.

In previous fiscal years, the Company has posted non-interest bearing bonds totalling \$199,136 (US\$177,300) with the Bureau of Land Management in the State of Nevada as security for these obligations. Fair value can not be reasonably determined and accordingly the bonds have been recorded at historical cost, adjusted for current exchange rates.

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

June 30, 2009

9. Share Capitala) **Authorized:** unlimited common shares with no par valueb) **Issued**

	Shares	Amount	Contributed Surplus
Balance, December 31, 2007	22,989,673	\$ 27,009,163	\$ 2,233,225
Issued for cash			
Private placement @ \$1.15	1,520,000	1,748,000	-
Exercise of options	710,131	501,737	-
Fair value of options exercised	-	404,252	(404,252)
	2,230,131	2,653,989	(404,252)
Share issue costs			
Commission on private placement	-	(89,700)	-
Legal costs	-	(6,763)	-
	-	(96,463)	-
Stock based compensation	-	-	357,110
Increase (decrease) for the year	2,230,131	2,557,526	(47,142)
Balance, December 31, 2008	25,219,804	29,566,689	2,186,083
Issued for cash			
Private placement @ \$0.60	1,500,000	900,000	-
Commission on private placement	-	(41,400)	-
Legal fees	-	(10,612)	-
Private placement @ \$1.75	1,714,285	3,000,000	-
Commission on private placement	-	(120,000)	-
Legal fees	-	(30,000)	-
Options exercised	335,000	310,750	-
Warrants exercised	425,000	652,000	-
Fair value of options exercised	-	204,450	(204,450)
Stock based compensation	-	-	854,148
Increase (decrease) for the period	3,974,285	4,865,188	649,698
Balance, June 30, 2009	29,194,089	\$ 34,431,877	\$ 2,835,781

On March 26, 2009, the Company announced that it had completed a non-brokered private placement of 1,500,000 units (the "Units") at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit consists of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.90 for a period of 12 months after closing. The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 20 consecutive trading days, at a price of \$1.30 or greater. A 5% commission that applied to a portion of the financing attributable to authorized agents in the amount of \$41,400 was paid.

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

June 30, 2009

9. Share Capital (continued)**b) Issued**

Although the Company's shares traded at a price of \$1.30 or greater for 20 consecutive days, the Board of Directors decided not to call the early expiration of the warrants.

On June 30, 2009, the Company announced that it had completed a non-brokered private placement of 1,714,285 common shares at a price of \$1.75 per share for gross proceeds of \$3,000,000. A 5% commission that applied to a portion of the financing attributable to authorized agent in the amount of \$120,000 was paid.

c) Options outstanding

A summary of the Company's outstanding stock options as of June 30, 2009 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding and exercisable at December 31, 2007	2,130,131	\$ 1.52
Options granted	1,205,000	2.30
Options exercised	(710,131)	0.71
Options expired	(50,000)	0.65
Outstanding at December 31, 2008	2,575,000	1.52
Options granted (note 10)	950,000	1.00
Options exercised	(335,000)	0.93
Outstanding and exercisable at June 30, 2009	3,190,000	\$ 1.42

Number of Underlying Shares	Weighted average exercise price	Exercisable	Weighted average exercise price	Exercise Price	Expiry Date
300,000		300,000		\$ 1.05	June 10, 2010
645,000		645,000		\$ 2.35	July 17, 2011
150,000		150,000		\$ 2.30	January 19, 2012
200,000		200,000		\$ 2.25	May 7, 2012
105,000		105,000		\$ 2.30	January 21, 2013
900,000		900,000		\$ 0.86	September 17, 2013
890,000		890,000		\$ 1.00	March 2, 2014
3,190,000	\$ 1.42	3,190,000	\$ 1.42		

On June 15, 2009, the Company announced that it received a formal unsolicited offer from Silvercorp Metals Inc. ("Silvercorp") to acquire all of the outstanding shares of the Company for 0.5 of a common share of Silvercorp for each share of the Company. As a result of the unsolicited offer and in accordance with the stock option plan, all vesting provisions on outstanding stock options expired.

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

June 30, 2009

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

A summary of the Company's outstanding share purchase warrants at June 30, 2009 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price
Outstanding and exercisable at December 31, 2007	Nil	\$ Nil
Warrants granted, as per private placement	1,520,000	1.60
Outstanding and exercisable at December 31, 2008	1,520,000	1.60
Warrants granted, as per private placement	1,500,000	0.90
Warrants exercised	(425,000)	(1.53)
Outstanding and exercisable at June 30, 2009	2,595,000	\$ 1.21

At June 30, 2009, there were 2,595,000 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
1,135,000	\$ 1.60	August 20, 2009
1,460,000	\$ 0.90	March 26, 2010
2,595,000		

10. Stock Based Compensation

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 15% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under TSE policies), or such other price as may be agreed to by the Company and accepted by the TSE. According to the 2008 stock option plan, the vesting periods of options granted under the plan may vary at the discretion of the Plan Administrator, subject to Regulatory approval.

On January 22, 2008 the Company granted directors, officers and consultants 105,000 incentive stock options at an exercise price of \$2.30 per share expiring on January 21, 2013. Options vest at 25% every six months with the first 25% vesting July 22, 2008.

On September 17, 2008, the Company granted directors, officers and consultants 1,100,000 incentive stock options at an exercise price of \$0.86 per share expiring on September 17, 2013. These optioned shares may be acquired as follows:

- (i) Up to 50% of the optioned shares may be acquired at any time after March 17, 2009 and prior to the expiry date;
- (ii) The balance of 50% of the optioned shares may be acquired at any time after September 17, 2009 and prior to the expiry date.

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

June 30, 2009

10. Stock Based Compensation (continued)

On March 2, 2009 the Company granted directors, officers and consultants 950,000 incentive stock options at an exercise price of \$1.00 per share expiring on March 2, 2014. Options have no vesting period imposed and are immediately exercisable.

On June 15, 2009, the Company announced that it received a formal unsolicited offer from Silvercorp to acquire all of the outstanding shares of the Company for 0.5 of a common share of Silvercorp for each share of the Company. As a result of the unsolicited offer and in accordance with the stock option plan, all vesting provisions in outstanding stock options expired.

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

Date of grant 2009		02-Mar-09	Total or Average
Number of options		950,000	950,000
Number expected to vest		950,000	950,000
Estimated life		5 years	5 years
Share price at date of grant		\$0.63	\$0.63
Option exercise price		\$1.00	\$1.00
Risk free interest rate		2.5%	2.5%
Estimated volatility		84.44%	84.44%
Option fair value		\$0.37	\$0.37
Compensation cost		\$355,889	\$355,889

Date of grant 2008	22-Jan-08	17-Sep-08	Total or Average
Number of options	105,000	1,100,000	1,205,000
Number expected to vest	78,750	1,100,000	1,178,750
Estimated life	5 years	5 years	5 years
Share price at date of grant	\$2.15	\$0.89	\$1.00
Option exercise price	\$2.30	\$0.86	\$0.99
Risk free interest rate	3.75%	3.25%	3.29%
Estimated volatility	80.12%	70.52%	71.36%
Option fair value	\$1.40	\$0.54	\$0.62
Compensation cost	\$73,500	\$598,000	\$745,000

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

June 30, 2009

11. Non Cash Transactions

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

	June 30, 2009	December 31, 2008
Financing activities		
Contributed surplus allocated on exercise of options	\$ 204,450	\$ 404,252
Share capital allocated from contributed surplus	\$ (204,450)	\$ (404,252)

12. Financial Instruments**a) Currency risk**

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

At June 30, 2009 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 359,087
Marketable securities	\$ 123
Reclamation bonds	\$ 177,300
Accounts payable	\$ 354,992
Due to related parties	\$ 192,447

At June 30, 2009 US dollar amounts were converted at a rate of \$1.1625 Canadian dollars to \$1.00 US dollar.

b) Capital risk management

The Company includes cash and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company's properties are in the exploration stage and as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise the additional funds required.

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

June 30, 2009

12. Financial Instruments (continued)**b) Capital risk management** (continued)

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

There were no changes in the Company's approach to capital management during the period ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

13. Related Party Transactions

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

- a) During the six months ended June 30, 2009, the Company incurred consulting fees of \$24,000 (2008 - \$24,898) and capitalized mineral property services of \$81,500 (2008 - \$36,000) to an officer and to a company controlled by each of a director.
- b) During the six months ended June 30, 2009, the Company incurred salary and benefit expenses of \$87,975 (2008 - \$34,608) and rent of \$18,050 (2008 - \$Nil) to the President.
- c) During the six months ended June 30, 2009, the Company incurred management fees of \$21,660 (2008 - \$8,996) and rent of \$3,610 (2008 - \$1,499) to a director.
- d) During the six months ended June 30, 2009, the Company incurred accounting fees of \$42,554 (2008 - \$31,760) to an officer.
- e) During the six months ended June 30, 2009, the Company incurred consulting fees of \$25,000 from directors and an officer directly related to the Silvercorp Metals Inc. unsolicited take-over bid.
- f) Amounts owing to directors and officers of \$330,040 (2008 - \$147,555) are non-interest bearing, unsecured, and payable upon demand. Fair value cannot be reliably determined.

14. Segmented Information

June 30, 2009	Canada	United States	Total
Interest earned	\$ 1,691	\$ -	\$ 1,691
Expenses	(1,140,806)	(298,515)	(1,439,321)
Loss for the period	\$ (1,142,450)	\$ (298,515)	\$ (1,440,965)
Identifiable assets	\$ 3,944,167	\$ 22,215,343	\$ 26,159,510
June 30, 2008	Canada	United States	Total
Interest earned	\$ 53,784	\$ -	\$ 53,784
Expenses	(247,017)	(280,728)	(527,745)
Loss for the period	\$ (193,233)	\$ (280,728)	\$ (473,961)
Identifiable assets	\$ 1,370,202	\$ 19,032,513	\$ 20,402,715

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

June 30, 2009

15. Commitments

As at December 31, 2008, the Company has shared lease commitments for office space expiring in February 2010. Minimum lease payments including estimated taxes and excluding operating costs for each of the next three years are as follows:

2009	\$ 8,021
<u>2010</u>	<u>2,005</u>
<u>Total</u>	<u>\$ 10,026</u>

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

16. Subsequent Events

On July 20, 2009, the Company announced that it had entered into a binding letter of agreement with Paramount Gold and Silver Corp. ("Paramount") to combine the two companies under a plan of arrangement. The Letter Agreement was unanimously approved by the Board of Directors of both Companies.

Pursuant to the Letter Agreement, each Klondex share will be exchanged for 1.45 Paramount shares, implying a purchase price of \$2.32 per Klondex share using closing share prices on the TSX on July 17, 2009.

On July 21, 2009, Silvercorp announced that the offer to acquire all the outstanding shares of the Company expired. At the time of expiry, certain conditions to the offer, including the minimum tender threshold of 66 2/3% had not been met. As a result, Silvercorp has terminated its offer. All Klondex shares that have been tendered to the offer will be promptly returned to shareholders.

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Six Months Ended June 30, 2009

Directors and Officers as at August 12, 2009:

Directors:

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

Officers:

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

Contact Name:

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

Toronto Stock Exchange Symbol:

KDX

KLONDEX MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Six Months Ended June 30, 2009

1.1 Date of This Report

August 12, 2009

This MD&A includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

1.2 Overall Performance

Description of Business

Klondex Mines Ltd. (“Klondex” or the “Company”) was founded in 1974 and is listed on the Toronto Stock Exchange under the symbol '[KDX](#)'. Klondex Mines is engaged in acquiring, exploring and developing gold and silver properties in Nevada.

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

1.3 Selected Annual Information

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

	December 31, <u>2008</u>	December 31, <u>2007</u>	December 31, <u>2006</u>
(a) Total revenue	Nil	Nil	Nil
(b) Loss before extraordinary items			
(i) Total loss	\$1,154,138	\$1,252,259	\$1,470,080
(ii) Loss per share - basic	\$0.05	\$0.06	\$0.07
(iii) Loss per share - diluted	\$0.05	\$0.06	\$0.07
(c) Net loss			
(i) Total loss	\$1,154,138	\$1,252,259	\$1,470,080
(ii) Loss per share - basic	\$0.05	\$0.06	\$0.07
(iii) Loss per share - diluted	\$0.05	\$0.06	\$0.07
(d) Total assets	\$23,430,737	\$20,366,135	\$19,991,957
(e) Total long-term liabilities	\$4,113	\$7,388	\$10,663
(f) Cash dividends declared per-share	N/A	N/A	N/A

1.4 Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

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

NEVADA MINERAL PROPERTIES

Acquisition and Exploration expenditures:

Nevada Properties	June 30, 2009	December 31, 2008
Balance, beginning of the period	\$ 21,282,764	\$ 15,769,182
Acquisition of land	-	297,560
Advance - Drilling	-	(99,293)
Assays and core costs	25,961	549,046
Consulting - geological	177,997	363,745
Drilling	-	3,767,091
Environmental consulting & permitting	22,559	282,918
Field supplies and equipment	14,433	155,337
Geophysics	61,949	31,123
Lease payments, taxes and royalties	-	17,944
Legal	345	1,915
Maintenance fees	579	75,351
Mapping and sampling	785	520
Miscellaneous	21,919	57,026
Site visits	16,850	13,299
Current expenditures for the period	343,377	5,513,582
Balance, end of period	\$ 21,626,141	\$ 21,282,764

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada

The Company has a 100% ownership interest in this land block which was expanded during fiscal 2003 by 2,720 acres to a total of 4,875 acres. During fiscal 2004, the Company acquired four additional blocks of land (80 acres) in the area for Cdn\$69,567 (US\$52,983). During fiscal 2006, the Company acquired additional blocks of land, which totaled 130 acres for Cdn\$119,030 (US\$97,009). 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 year ended December 31, 2007, the Company acquired an additional 50 acres for \$70,433 (US\$66,490).

During the year ended December 31, 2008, the Company acquired an additional 400 acres for \$184,504 (US\$182,475). The Company includes the Woodtick and Corral Canyon claims in the greater Fire Creek Project area. The total unpatented claims within the project area now total 484 claims, or 9,680 acres and fee lands now total 1,428 acres.

Corral Canyon, Lander County, Nevada

The Company has a 100% ownership interest in 42 claims (840 acres) in Corral Canyon, Lander County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

Woodtick claims, Lander County, Nevada

The Company has a 100% ownership interest in these 26 claims (520 acres). They lie directly north-east of Fire Creek along the Mule Canyon-Fire Creek-Buckhorn volcanic trend. These claims provide access to the northern Fire Creek block from the powerline road. The claims are in good standing and will be renewed on September 1, 2009. These claims were added to the Fire Creek project in fiscal 2007 and are included in the Fire Creek discussion.

Exploration Results and Future Plans & Developments

On March 2, 2009, the Company announced the assays from the final 15 holes of its 2008 drill program. The holes continued the program of drilling untested geophysical anomalies and extending known resource zones. The results are presented in table below and the drill plan showing all 2008 drill holes is posted on Klondex's website www.klondexmines.com/s/News.asp.

Exploration Results and Future Plans & Developments (continued)

Fire Creek Drill Results Update March 2009 (≥ 10 feet @ ≥ 0.03 oz/ton gold equivalent)										
Hole No.	From (feet)	To (feet)	Interval (feet)	True Width (feet)	Gold (oz/ton)	Silver (oz/ton)	True Width (m)	Gold (g/t)	Silver (g/t)	Target Area
FC0805B including	420.0	440.0	20.0	14.2	0.042	0.25	4.3	1.45	8.50	Main
	1235.0	1250.0	15.0	10.6	0.213	0.26	3.2	7.30	8.83	Main
	1235.0	1237.5	2.5	1.8	1.101	0.74	0.5	37.70	25.40	Main
	1275.0	1280.0	5.0	3.5	0.047	0.06	1.1	1.59	2.20	Main
	1302.5	1307.5	5.0	3.5	0.080	0.27	1.1	2.72	9.10	Main
	1330.0	1335.0	5.0	3.5	0.087	4.88	1.1	2.98	167.00	Main
FC0818 including	930.0	945.0	15.0	12.0	0.048	<0.015	3.7	1.65	<0.50	N. New North
	995.0	1000.0	5.0	4.0	0.073	<0.015	1.2	2.49	<0.50	N. New North
	1080.0	1095.0	15.0	12.0	0.052	<0.015	3.7	1.77	<0.50	N. New North
	1260.0	1270.0	10.0	9.0	0.038	0.07	2.7	1.30	2.40	N. New North
FC0823	No +0.03 oz/ton Gold Values									Northeast
FC0825	1170.0	1180.0	10.0	7.1	0.028	0.03	2.2	0.97	1.15	Northeast
FC0827 including	1490.0	1500.0	10.0	7.1	0.055	0.03	2.2	1.89	1.00	Main N. Ext.
	1545.0	1560.0	15.0	10.6	0.142	0.41	3.2	4.88	13.87	Main N. Ext.
FC0829*	900.0	915.0	15.0	12.0	0.140	0.05	3.7	4.81	1.77	North Main
FC0830 including	1130.0	1135.0	5.0	4.0	0.308	0.06	1.2	10.54	2.10	West Main
	1275.0	1280.0	5.0	4.0	0.064	0.02	1.2	2.21	0.60	West Main
	1550.0	1555.0	5.0	4.0	0.760	0.01	1.2	2.59	0.50	West Main
FC0831	1290.0	1300.0	10.0	7.1	0.074	1.80	2.2	2.53	61.70	Main N. Ext.
FC0832 including	910.0	945.0	35.0	28.0	0.042	0.12	8.5	1.43	4.04	N. New North
	915.0	920.0	5.0	4.0	0.101	<0.015	1.2	3.45	<0.50	N. New North
FC0833	1100.0	1105.0	5.0	4.0	0.171	0.08	1.2	5.87	2.60	N. New North
FC0834	No +0.03 oz/ton Gold Values									IP Anom. 10
FC0835 including	1040.0	1045.0	5.0	4.0	0.073	0.06	1.2	2.49	2.10	North Main
	1065.0	1075.0	10.0	8.0	0.098	0.11	2.4	3.35	3.70	North Main
	1125.0	1150.0	25.0	20.0	0.100	0.11	6.1	3.43	3.84	North Main
	1125.0	1130.0	5.0	4.0	0.146	0.18	1.2	5.01	6.20	North Main
	1145.0	1150.0	5.0	4.0	0.288	0.19	1.2	9.87	6.50	North Main
FC0836	1310.0	1322.5	12.5	10.0	0.029	0.02	3.0	1.00	0.60	New North
FC0837	No +0.03 oz/ton Gold Values									IP Anom. 14

* Hole lost before reaching target depth.

These drill holes were incorporated in an NI 43-101-compliant resource update for its 100%-owned Fire Creek high-grade gold property, which was filed on SEDAR on March 31, 2009.

Enviroscientist Inc., continues to work with the Bureau of Land Management in getting the water permit for the Fire Creek property.

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada

On April 1, 2009, the Company announced that it had received an NI 43-101-compliant update report on its 100%-owned Fire Creek gold property in the Battle Mountain-Eureka Trend in Northern Nevada which contains the following information:

“Through extensive drill campaigns carried out over the past 5 years Klondex has defined an Indicated Mineral Resource estimated at 5,043,033 metric tons averaging 10.11 grams per metric ton (gpt) for 1,639,822 ounces of gold equivalent with an average interval true width of 5.5 meters using a cut-off grade of 5.0 gpt. This cut-off grade also resulted in an inferred resource estimate of 1,833,423 metric tons tonnes grading 8.63 gpt for 508,799 ounces of gold.”

The current mineral resource figures at various cut-off grades are presented in the table below and all represent a significant increase in tonnage and contained gold over the September 2006 resource estimate of an indicated resource of 1,636,555 tonnes grading 19.88 gpt containing 1,045,738 ounces of gold.

Fire Creek Project - Indicated and Inferred Resource

Gold Cut-off GPT	Classification	Metric Tons	Grade GPT	Oz. Gold*
8.0	Indicated	2,408,299	16.42	1,271,392
8.0	Inferred	1,074,308	13.57	468,856
5.0	Indicated	5,043,033	10.11	1,639,822
5.0	Inferred	1,833,423	8.63	508,799
2.0	Indicated	14,056,610	4.67	2,111,002
2.0	Inferred	8,877,720	3.74	1,068,488

* Gold equivalent with silver at 60:1

This Mineral Resource Update was based on information from an additional 101 drill holes totaling 147,110 feet (44,837 meters) received between August 2006 and December 2008. The estimation method used was the polygonal technique. Key assumptions included an average mining width of 5.5 meters (for the 5.0 gpt cut off estimate) for dilution and a bulk tonnage factor of 2.55 was applied based on specific gravity measurements of representative core. High gold values were not cut but their area of influence was limited by a number of constraints. The Mineral Resource Update reflects three different mineral cutoffs. The September 2006 mineral resource was based on a cutoff of 10 gpt and an average mining width of less than 3 meters. The reduced GPT cutoffs and increased mining widths utilized in the Mineral Resource Update were deemed appropriate given the significant increase in the price of gold over the past 2 ½ years. The silver to gold grade ratio is approximately 1:1 and silver does not have a significant economic impact on the overall resource at Fire Creek but is important locally within the zones.

1.4 Results of Operations (continued)

Fire Creek Gold Properties, Lander County, Nevada

On July 9, 2009, the Company announced that it had resumed surface drilling on the Fire Creek Project. The drilling, part of the program recommended in the Company's March 2009 NI 43-101-compliant resource update, will further test the two high-grade gold vein sets which make up the Main Zone and which are primary targets for Klondex's planned bulk sampling initiative. Later this month Klondex anticipates the grant of permits by the U.S. Bureau of Land Management which will allow initiation of underground exploration.

Initially, five holes totaling 1,890 meters (6,200 feet) will be drilled to test high-grade zones on the two north-northwest striking gold-bearing structures which make up the Main Zone. The holes are intended to confirm above average grades reported in previous drill intercepts as well as to demonstrate continuity in these locations.

Discussion of Drilling Targets:

Two proposed holes (P1 and P5 as shown on the accompanying map) will test the Main Zone along the 350m and 400m North profiles in the Main Zone. Proposed hole P1 will test the hole FC0417 intercept grading 95.2 gpt (grams per metric ton) gold and 53.5 gpt silver over an estimated true width* of 3.81 meters (including 411 gpt gold and 236.0 gpt silver over 0.76 meters) and the intercept from FC0512 grading 16.8 gpt gold and 54.4 gpt silver over 2.66 m on Vein M2. This hole will also test for the up dip extension of the intercept reported in FC0513 of 40.1 gpt gold and 105.4 gpt silver over 2.66 m on Vein M1. Proposed hole P5 will be drilled 50 meters to the north of P1 and will test the intercepts from FC0403 (30.3 gpt gold and 21.8 gpt silver over 2.44 m) and FC0502 (20.8 gpt gold and 19.5 gpt silver over 6.1 m), both on Vein M1.

Some 200 to 250 meters to the south, a set of three proposed holes (P2, P3 and P4) will test the high grade area on Vein M1 characterized by previously reported high-grade intercepts such as FC0413 (182.5 gpt gold and 156.0 gpt silver over 1.22m), FC0621 (24.6 gpt gold and 16.2 gpt silver over 8.54m), FC0419 (14.2 gpt gold and 14.0 gpt silver including 76.0 gpt gold and 76.9 gpt silver over 2.44m) and FC0619 (30.1 gpt gold and 24.3 gpt silver over 6.1m, 60.9 gpt gold and 31.5 gpt silver over 2.8m and 64.2 gpt gold and 30.5 gpt silver over 1.2m).

*All widths reported above are true widths generally estimated to be 50-80% of reported widths.

Lander & Eureka Counties, Nevada

The Company has an option to acquire a 100% interest (the "Option") in certain lands located in Lander & Eureka Counties, Nevada (the "Property"), from Fire Creek Lands, LLC (the "Optionor"). The Property has the potential for copper, silver, gold and other valuable mineral deposits. In consideration of the Option, the Company must make option payments in the aggregate amount of \$380,000 over a period of five years (US\$255,000 paid to date), and may purchase the Property on or before June 17, 2010 for \$2,500,000 with prior option payments being applied as a credit towards the purchase price.

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

1.4 Results of Operations (continued)

Reef claims, Churchill County, Nevada

The Company has a 100% ownership interest in 8 claims (160 acres) in the Fairchild District of Churchill County. Anomalous gold and silver were previously detected along a siliceous reef which runs approximately a half mile in length. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time.

Maggie Creek, Elko County, Nevada

The Company has a 66.66% undivided interest in 48 claims (960 acres) situated in sections 8, 16 and 20 in the Maggie Creek area in Elko County, Nevada. The claims are in good standing and will be renewed on September 1, 2009. The property is subject to U.S. federal and state environmental statutes. No future work is planned for the property at this time. The claims are being held due to their strategic location.

Hot Springs Point, Lander County, Nevada

The Company has a 100% ownership interest in 39 claims (780 acres) situated about 6 miles east of the town of Crescent Valley. They are in a basalt-andersite setting. The claims are in good standing and will be renewed on September 1, 2009.

Discussion of Operations and Financial Condition

Results of Operations

Interest income for the six months ended June 30, 2009 was \$1,691 compared to \$53,784 for the six months ended June 30, 2008. The loss for the six months ended June 30, 2009 was \$1,440,965 as compared with a loss of \$473,961 for the six months ended June 30, 2008.

The increase in the loss for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 is related to the following:

- Stock-based compensation increased by \$694,979 during the six months ended June 30, 2009. As a result of the unsolicited take-over bid from Silver Corp Metals and in accordance with the stock option plan, all vesting provisions in outstanding stock options expired. The Company expensed \$312,717 as stock-based compensation for the quarter.
- Office and general expenses increased by \$45,522 during the six months ended June 30, 2009. Included in this amount is interest expense of \$31,841. The Company incurred \$17,928 in interest due to an overdraft in the US\$ brokerage account with Jones Gable. In addition, the Company incurred interest expense of \$11,899 from several US suppliers for unpaid drilling bills.
- Consulting fees and Legal and Accounting fees increased by \$70,345 and \$111,205 respectively. This was a result of the Company's efforts in responding to the unsolicited take-over bid by Silver Corp Metals.

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

Corporate & administration fees	\$	9,806
Shareholders communication (Canada)		25,250
Shareholders communication (USA)		36,100
Fees directly related to the Silvercorp take-over bid		63,820
Total	\$	134,976

1.4 Results of Operations (continued)

Discussion of Operations and Financial Condition (continued)

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

Travel	\$	26,780
Communication, Conference and meetings		28,421
Meals & entertainment		7,385
<hr/>		
Total	\$	62,586
<hr/>		

Discussion of Operations and Financial Condition

Investor Relations Activities

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

In January 2007, the Company entered into a one year agreement with Jaffoni & Collins (“JCI”) to provide investor relations services for the Company (automatically renews for successive one year periods). Founded in 1994, JCI (www.jcir.com) is a full-service investor relations agency exclusively focused on creating and executing communication programs for public companies. JCI will be responsible for developing and implementing, and advising the Company with respect to investor relations and financial policies and opportunities. JCI is based in New York, New York and works closely with institutional investors, sell-side analysts, brokers, and private investors and the media in Canada and the United States. JCI and its principals are at arm’s length to the Company.

JCI’s monthly fee is US\$5,000 plus expenses related to dissemination of information. JCI currently has stock options of 150,000 at \$2.30 per share, 25,000 at \$0.86 per share and 25,000 @ \$1.00 per share.

Financings, Principal Purposes & Milestones

On March 27, 2009, the Company announced that it had completed a non-brokered private placement of 1,500,000 units (the “Units”) at a price of \$0.60 per unit for gross proceeds of \$900,000. Each Unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.90 for a period for 12 months after closing. The warrants are subject to a 30-day early expiration if the stock closes on the Toronto Stock Exchange, for a period of 20 consecutive trading days, at a price of \$1.30 or greater. A 5% commission (\$41,400) was paid to authorized agents.

On June 30, 2009, the Company announced that it had completed a non-brokered private placement of 1,714,285 common shares at a price of \$1.75 per share for gross proceeds of \$3,000,000. A 5% commission that applied to a portion of the financing attributable to authorized agent in the amount of \$120,000 was paid.

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

1.5 Summary of Quarterly Results

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

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Dec-07	Sep-07
Total loss	(649,424)	(791,541)	(480,823)	(199,354)	(269,448)	(204,513)	(417,092)	(236,596)
Per share	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)

Discussion

For a detailed discussion on the six months ended June 30, 2009, please refer to Section 1.4 - Results of Operations.

1.6 Liquidity

The Company has no revenue generating projects at this time. The Company's historical capital needs have been met by equity subscriptions. As at June 30, 2009, the Company had a working capital of \$3,182,090 (December 31, 2008 – working capital deficit of \$563,415). The Company currently has sufficient working capital for general and administration expenses. The Company will require capital to meet the exploration program for the Fire Creek property. However, this is a forward-looking statement as it involves known and unknown risks, uncertainties and other factors, which could affect the actual results, performance or achievements of the Company and impact on the adequacy of working capital required for the year 2009 expressed by such forward-looking statement. Also, the ability of the Company to continue with recommended exploration programs on its current properties, and/or to successfully acquire and develop additional properties in the resource sector is conditional on its ability to secure financing when required. The Company proposes to meet any additional financing requirements through the exercise of outstanding stock options and warrants, or arranging other equity financing, and/or finalizing a joint venture agreement with a partner(s) who will be able to assume the costs of recommended exploration programs. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions or finding a joint venture partner will be possible at the times required or desired by the Company.

On July 20, 2009, the Company announced that it had entered into a binding letter of agreement with Paramount Gold and Silver Corp. to combine the two companies under a plan of arrangement in a transaction valued at approximately C\$80 million (the "Transaction" or the "Paramount Transaction"). The Letter Agreement has been unanimously approved by the Board of Directors of both Companies.

Pursuant to the Letter Agreement, each Klondex share will be exchanged for 1.45 Paramount shares, implying a purchase price of C\$2.32 per Klondex share using closing share prices on the TSX on July 17, 2009. The Transaction represents a premium of 33.3% to the closing price of Klondex shares and a 30.3% premium to the implied value of the unsolicited proposal by Silvercorp Metals Inc. ("Silvercorp.") as of July 17, 2009. The Silvercorp proposal was announced on June 8, 2009, and was rejected by the Klondex Board of Directors as providing inadequate consideration for Klondex shareholders.

1.6 **Liquidity** (continued)

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, 2009 the Company had the following financial assets and liabilities:

	US Dollars
Cash	\$ 359,087
Marketable securities	\$ 123
Reclamation bonds	\$ 177,300
Accounts payable	\$ 354,992
Due to related parties	\$ 192,447

At June 30, 2009 US dollar amounts were converted at a rate of \$1.1625 Canadian dollars to \$1.00 US dollar.

Capital risk management

The Company includes cash and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company's properties are in the exploration state and as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise the additional funds required.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

1.7 **Capital Resources**

The only capital resources of the Company are its mineral properties with a historical cost of \$21,626,141 and its property and equipment with a net book value of \$26,536.

1.8 **Off Balance Sheet Arrangements**

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

1.9 Transactions with Related Parties

The Financial Statements attached hereto provide disclosure on related party transactions for the six months ended June 30, 2009, with breakdown as follows:

<u>Expense</u>	<u>30-Jun-09</u>	<u>30-Jun-08</u>
Management salaries & fees	\$ 109,635	\$ 52,574
Consulting fees:		
- Shareholders communication	24,000	24,898
- Related to take-over bid	25,000	-
Accounting fees	42,554	31,760
Rent	21,660	2,995
Deferred geological fees	81,500	36,000
Total for the period	\$ 304,349	\$ 148,227

Amounts due to directors and officers of \$330,040 (2008 - \$147,555) are non-interest bearing, unsecured, and payable upon demand.

1.10 Second Quarter – 2009:

The second quarter expenditures do not differ significantly from other quarters and were in the normal course of the business with exception of the increased accounting, consulting and legal fees directly related to the take-over bid.

1.11 Proposed Transactions

On July 20, 2009, the Company announced that it had entered into a binding letter of agreement with Paramount Gold and Silver Corp. to combine the two companies under a plan of arrangement to combine the two companies under a plan of arrangement, in a transaction valued at approximately C\$80 million (the “Transaction” or the “Paramount Transaction”). The Letter Agreement has been unanimously approved by the Board of Directors of both Companies.

Pursuant to the Letter Agreement, each Klondex share will be exchanged for 1.45 Paramount shares, implying a purchase price of C\$2.32 per Klondex share using closing share prices on the TSX on July 17, 2009.

1.12 Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management’s application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Please refer to Note 2 of the Annual Financial Statements.

1.13 Changes in Accounting Policies

Please refer to Note 2 of the Financial Statements.

1.14 Financial and Other Instruments

The carrying value of cash and cash equivalents, marketable securities, accounts receivable, brokerage account overdraft, accounts payable and due from (to) related parties approximate their fair values due to the short maturity of those instruments.

1.15 Other

1.15.1 Share Capital

Disclosure of Outstanding Share Capital (August 12, 2009)

	Number	Book Value	Contributed Surplus
Common Shares	29,699,089	\$35,105,099	\$2,691,682

Summary of incentive stock options: (August 12, 2009)

Number of Shares	Expiry Date	Exercise Price
160,000	June 10, 2010	\$1.05
645,000	July 17, 2011	\$2.35
150,000	January 19, 2012	\$2.30
200,000	May 7, 2012	\$2.25
105,000	January 21, 2013	\$2.30
775,000	September 17, 2013	\$0.86
790,000	March 2, 2014	\$1.00
2,825,000		

Summary of warrants outstanding: (August 12, 2009)

Number of Shares	Expiry Date	Exercise Price
1,065,000	August 20, 2009	\$1.60
1,430,000	March 26, 2010	\$0.90
2,495,000		

1.15.2 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures for the six months ended June 30, 2009. The Board of Directors has adopted the recommendations made by management in the previous quarter and has implemented the procedures to ensure cohesive administration of financial and disclosure matters. Management and the Board have found those disclosure controls and procedures to be adequate for the above purposes.

1.15.2 Disclosure Controls and Procedures (continued)

Internal Controls over Financial Reporting

The Chief Executive Officer, the Chief Financial Officer and the Audit Committee of the Company are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles. The Chief Executive Officer, the Chief Financial Officer and the Audit Committee have designed and implemented a system of internal controls over financial reporting which they believe is effective for the Company. During the review of the design of the Company's control system over financial reporting it was noted that due to the limited number of staff, there is an inherent weakness in the system of internal controls due to our inability to achieve appropriate segregation of duties. The limited number of staff may also result in identifying weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources, and a lack of controls governing our computer systems and applications within the Company. While management of the Company has put in place certain procedures to mitigate the risk of material misstatement in the Company's financial reporting, it is not possible to provide absolute assurance that this risk can be eliminated.

1.15.4 Subsequent Event

On July 20, 2009, the Company announced that it had entered into a binding letter of agreement with Paramount Gold and Silver Corp. to combine the two companies under a plan of arrangement to combine the two companies under a plan of arrangement, in a transaction valued at approximately C\$80 million (the "Transaction" or the "Paramount Transaction"). The Letter Agreement has been unanimously approved by the Board of Directors of both Companies.

Pursuant to the Letter Agreement, each Klondex share will be exchanged for 1.45 Paramount shares, implying a purchase price of C\$2.32 per Klondex share using closing share prices on the TSX on July 17, 2009. The Transaction represents a premium of 33.3% to the closing price of Klondex shares and a 30.3% premium to the implied value of the unsolicited proposal by Silvercorp Metals Inc. ("Silvercorp.") as of July 17, 2009. The Silvercorp proposal was announced on June 8, 2009, and was rejected by the Klondex Board of Directors as providing inadequate consideration for Klondex shareholders.

On July 21, 2009, Silvercorp announced that the offer to acquire all the outstanding shares of the Company expired. At the time of expiry, certain conditions to the offer, including the minimum tender threshold of 66 2/3% had not been met. As a result, Silvercorp has terminated its offer. All Klondex shares that have been tendered to the offer will be promptly returned to shareholders.

1.15.5 Additional information

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