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George Cross News Letter

"Reliable Reporting"

WESTERN CANADIAN INVESTMENTS

KLONDEX MINES LTD. (KDX-X)

<u>HOLE NO.</u>	<u>WIDTH</u>	<u>OZ. GOLD/T</u>
86-06	45 ft.	0.186
86-04	35 ft.	0.205
86-03	20 ft.	0.099

TEST WORK CONTINUES ON NEVADA - E. George Meschi,
OPEN PIT HEAP LEACH GOLD PROJECT director of Klondex

Mines Ltd., has
reported Alma American Mining Corporation of Fairplay,
Colorado, a private company, has been conducting an
aggressive drilling program on the Fire Creek heap leach
gold project in Lander County, Nevada.

Recent work has included aerial photographs, (VLF)
electromagnetic group survey and 22 reverse-circulation
drill holes. The best results are shown in table above.

Assay results are due at the end of October are
expected to confirm previous drilling from the zone
stretching 800 feet north of the 32,000 ton pad, and,
the open pit area, which produced 1000 ounces of dore
gold during the 1981-1984 test period.

A total of 35 to 40 holes should be completed by
the end of November. A series of laboratory scale
cyanide leach tests are to start shortly.

Klondex can either continue a 30% working interest-
in the property or revert to a 5% to 15% sliding scale
production royalty related to the price of gold, after
Alma American Mining has spent \$100,000 on exploration.
E. George Meschi, director of Klondex Mines Ltd.,
exercised his option to purchase 100,000 shares of
Klondex at 85¢. (Canadian Funds) on October 14, 1986,
bringing the issued shares of the company to 3,815,837.

RIGHT RESERVED
PUBLISHED DAILY
SUBSCRIPTION RATE
\$300.00 PER YEAR

NO. 221 (1986)
NOVEMBER 18, 1986

*Crescent Valley
Lander County*

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October 28, 1986

DIRECTORS' REPORT TO SHAREHOLDERS

E. George Meschi, Director of Klondex Mines Ltd. (KDX Vancouver Stock Exchange) and President of Klondex Gold and Silver Mining Co. (100% owned U.S. subsidiary), reported that Alma American Mining Corporation of Fairplay, Colorado, a privately owned company, has been conducting an aggressive exploration and development drilling program, with very favorable results, on the Klondex Fire Creek heap leach gold project in Lander County, Nevada, under the terms of a July 1986 agreement between the two companies.

Michael J. Hopley, Denver based consultant for Klondex, reviewed the current data provided by Alma and Klondex in updating his previous field examinations and reports on the Fire Creek project. Work started in August and a series of aerial photographs were taken from which a set of 1"=50' and a set of 1" to 200' scale topographic maps have been drawn. These will aid in additional geological mapping of the mineralized zones and in developing a pit design for the Fire Creek project.

A close spaced Very Low Frequency (VLF) electromagnetic ground survey was conducted over certain parts of the property with what appears to be positive results. The VLF survey shows, for the first time, the possible location of structures associated with some low grade gold mineralization encountered in previous drilling, as well as strike extension to the north and south of the known ore body.

A reverse-circulation drilling program, started in early September, completed twenty-two angled (between 45° and 60°) holes at an average depth of 150 feet. Assay results are available from only nine of the holes drilled to date.

Many of the nine drill holes, from which results are now available, show numerous intersections with grades between 0.05 and 0.1 oz./T gold. There are also some particularly high grade intercepts over significant widths; for example:

Drill hole #86-06	45' of 0.186 oz/T gold
Drill hole #86-04	35' of 0.205 oz/T gold
Drill hole #86-03	20' of 0.099 oz/T gold

In general, assay results due at the end of October are expected to confirm previous drilling from the zone stretching 800 feet north of the 32,000 ton pad, and, the open pit area, which produced 1000 ounces of dore gold during the 1981-1984 test period.

A total of 35 to 40 holes should be completed by the end of November. Some of the planned holes will be drilled in untested ground along strike north and south of the present pit, and on the VLF anomalies, away from the known zone of mineralization.

Alma American has contracted the consulting company of Kappes Cassiday & Associates of Sparks, Nevada to complete a series of laboratory scale cyanide leach tests on the Fire Creek ore in order to establish the optimum leaching method. These tests will culminate in a several hundred pound bulk sample being test leached in a 10" diameter by 10' high column. This work is scheduled to start very shortly. Also Schwendinger & Associates of Denver has been retained to complete certain environmental studies necessary if the Fire Creek Project is brought into production.

It appears that a logical sequence of work is being rapidly completed by Alma American Mining Corporation and this work should significantly advance the Fire Creek Project.

Management of Klondex feels the results to date are very encouraging.

Under the terms of the Alma American Mining — Klondex lease, in addition to the \$25,000. (U.S. Funds) advance payment, which Klondex has already received, Alma is spending a minimum of \$100,000. (U.S. Funds) before March 1, 1987 at Fire Creek. At that time Alma will provide Klondex with the results of Alma's operations, and its proposed program for production or further development if Alma elects to continue its interest in the Fire Creek venture.

On or after March 1, 1987, but in any event ninety days after Alma notifies Klondex of its intention to commence commercial production, Klondex shall elect to convert its interest into one of the following:

1. A production royalty on minerals removed from the Leased Properties payable in accordance with the following schedule:

<u>Price of Gold</u>	<u>Production Royalty</u>
Less than \$375.00	5% of Alma's Gross
\$375.00 to \$399.00	7.5% of Alma's Gross
\$400.00 to \$424.99	10% of Alma's Gross
\$425.00 to \$499.99	12.5% of Alma's Gross
\$500.00 and above	15% of Alma's Gross

or, the alternative

2. Klondex can elect the right to receive 30% of net profits provided that Klondex, Lessor, contributes 30% of all Capital costs as defined on and after March 1, 1987, and all expenses in connection with ongoing operations.

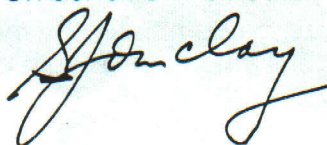
Beginning March 1, 1987, in the event that Klondex elects (Item 1) a royalty interest, Lessee shall be obligated to pay Lessor (Klondex) an advance royalty of ten ounces of gold, or the cash equivalent, on or before the tenth on each month thereafter; and at the tenth of each month, in accordance with the above schedule, Lessee (Alma) shall assume the \$1,000.00 (U.S. Funds) payment to Dead Broke Mining Company, under the terms of the present lease, as long as their interest is maintained.

E. George Meschi, Director of Klondex Mines Ltd., exercised his option to purchase 100,000 shares of Klondex at \$.85, (Canadian Funds) on October 14, 1986, bringing the issued shares of the Company to 3,815,837.

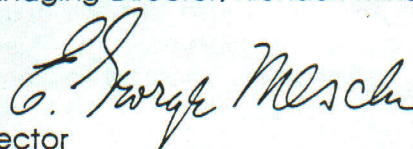
In addition to the \$85,000, (Canadian Funds) received from the exercise of this option, Klondex Mines current working capital position includes an inventory of 90 oz. of gold, and approximately \$32,000. in current working capital funds.

KLONDEX MINES LTD., VANCOUVER, CANADA

Respectfully submitted,
On behalf of the Board



S.J. O. McClay
Managing Director, Klondex Mines, Ltd.



Director

Ticker Symbol (KDX)

The Vancouver Stock Exchange has neither approved nor disapproved the information contained herein.