KLONDIKE SILVER CORP.

FINANCIAL STATEMENTS

FOR YEARS ENDED MAY 31, 2006

KLONDIKE SILVER CORP.
BALANCE SHEET

	May 31 2006 $
ASSETS	
CURRENT	
Cash and cash equivalents	1,899,490
Accounts receivable	34,708
Prepaid expenses	2,815
	1,937,013
RECLAMATION BOND (Note 4)	75,000
MILL AND EQUIPMENT (Note 5)	472,322
MINERAL PROPERTY COSTS (Note 6)	689,898
	3,174,233
LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	5,275
Due to related parties (Note 7)	7,735
ASSET RETIREMENT OBLIGATION (Note 8)	37,691
	50,701
SHAREHOLDERS' EQUITY	
SHARE CAPITAL (Note 9)	3,644,319
SHARE SUBSCRIPTIONS RECEIVABLE (Note 9(v))	(371.400)
CONTRIBUTED SURPLUS	658,619
DEFICIT	(808,006)
	3,123,532
	3,174,233

APPROVED BY THE DIRECTORS:

"**RICHARD HUGHES**"
Director

"**ALAN CAMPBELL**"
Director

The accompanying notes are an integral part of these Financial Statements.

KLONDIKE SILVER CORP.
STATEMENT OF OPERATIONS AND DEFICIT

	For the Year Ended May 31 2006 $
EXPENSES	
Accretion and depreciation	25,814
Bank charges and interest	1,394
Consulting fees	11,000
Financing expense (Note 9)	40,000
Mill caretaking expenses	97,017
Office administration (Note 6)	87,500
Office expenses	17,253
Professional fees	38,933
Regulatory and stock transfer fees	48,855
Stock based compensation	642,200
Loss Before Income Tax	(1,009,966)
Income Tax Recovery On Flow-Through Shares	202,000
Loss For The Period	(807,966)
DEFICIT - Beginning of the year	-
DEFICIT - End of the year	(807.966)
NET LOSS PER SHARE – basic and diluted	(0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	14,264,799

The accompanying notes are an integral part of these Financial Statements.

KLONDIKE SILVER CORP.
STATEMENT OF CASH FLOWS

	For the Year Ended May 31 2006 $
CASH PROVIDED BY (USED IN):	
OPERATING ACTIVITIES	
Net loss for the period	(807,966)
Non-cash items-Accretion and Amortization	25,814
Non-cash items-Shares issued for loan expense	40,000
Income tax recovery on flow-through shares	(202,000)
Stock based compensation	642,200
	(301,952)
Change in non cash working capital items:	
Accounts receivable	(34,708)
Prepaid expense	(2,815)
Accounts payable and accrued liabilities	5,275
Due to related party	7,735
	(326,465)
INVESTING ACTIVITIES	
Equipment	(204,341)
Mineral property costs	(82,356)
	(286,697)
FINANCING ACTIVITIES	
Shares issued for cash	2,606,841
Share issue costs	(94,189)
	2,512,652
INCREASE IN CASH	1,899,490
CASH and cash equivalents - Beginning of the year	-
CASH and cash equivalents - End of the year	1,899,490

SUPLEMENTARY CASH FLOW INFORMATION:
Non-cash investing and Financing Activities:

a) 375,000 shares were issued for the Reclamation Bond related to the Company's Silvana Mine and Mill with a fair value of $75,000.

The accompanying notes are an integral part of these Financial Statements.

1. NATURE OF OPERATIONS

The Company was incorporated on March 2, 2005 pursuant to the *Business Corporations Act* (British Columbia).

On July 6, 2005, the Company entered into an Arrangement Agreement with Klondike Gold Corp. ("KG") in order to implement a statutory procedure known as a plan of arrangement (the "Arrangement") under Section 288 of the *Business Corporations Act* (British Columbia).The purpose of the Arrangement is to restructure KG by transferring certain of KG's mineral property interests and Equipment to the Company in consideration for the Company assuming the ongoing obligations of KG in respect of the properties and equipment. The Company listed its common shares on the TSX Venture Exchange on April 17, 2006.

Shareholders of KG approved the Arrangement at an extraordinary meeting of shareholders on September 9, 2005. Pursuant to the Arrangement, completed on October 7, 2005, each five issued and outstanding common shares of KG were exchanged for five new common shares of KG and one reorganization share of KG. All of the reorganization shares of KG were transferred by the shareholders to the Company and in exchange the Company issued 18,305,752 common shares to the shareholders on a one-for-one basis. KG then redeemed all of the reorganization shares held by the Company by transferring its interest in the mineral properties and equipment.

The Company issued 200,000 common shares from treasury to KG as a bonus in respect of a $100,000 loan made to the Company for initial working capital.

Anti-dilution provisions in connection with the outstanding stock options and warrants of KG provide that the rights of options and warrant holders cannot be altered or restricted as a result of the Arrangement. On the effective date of the Arrangement, all options and warrants of KG outstanding shall be separated so as to be exercisable separately into KG common shares and Company common shares on the basis that for every five common shares purchasable of KG, the holder thereof will be entitled to purchase, separately, one common share of the Company. The exercise price of the Company's options and warrants shall be adjusted to one quarter of the KG option exercise price multiplied by five.

The Company is in the business of exploring mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. The Company does not have a sustainable source of revenue and is dependent on investor financing for its exploration programs.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these financial statements:

a) Basis of Accounting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles as prescribed by The Canadian Institute of Chartered Accountants (CICA).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with maturities of no more than ninety days.

d) Mill and Equipment

The mill comprises a used ore processing plant and related equipment and buildings stated at cost. On commencement of commercial production, net costs will be charged to operation on the unit-of production method, based upon estimated productive capacity.

Equipment is stated at cost. Amortization is provided on the declining balance method at the rate of 30% per year.

e) Mineral Properties Costs

Mining properties comprise the acquisition and maintenance of the mineral properties exploration rights and all exploration costs directly incurred on the properties. The Company records its interest in mineral properties and related expenditures at cost or at an ascribed amount if the consideration is common shares, less option payments received. Recorded amounts are capitalized until the properties are sold, abandoned or brought into production. Capitalized costs related to sold or abandoned properties are written off in the period of sale or abandonment. Capitalized costs related to producing properties are amortized to production on the unit-of-production method, based upon estimated production capacity.

f) Impairment of Long-Lived Assets

Long-lived assets include mill and equipment and mining properties. Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

g) Option Agreements

From time to time, the Company acquires or sells property interests pursuant to the terms of option agreements. As options are exercisable entirely at the discretion of the optionee, the related amounts are recorded only upon payment or receipt.

h) Environmental Remediation and Reclamation Expenditures

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable.
The Company is in the early stages of exploring its resource properties. Remediation and reclamation expenditures are charged against earnings as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Flow-Through Common Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company follows the accounting prescribed by the CICA Emerging Issues Committee (EIC) in EIC-146 "Flow-through Shares". On the date the expenditures are renounced, the Company records the income tax benefit arising from the renunciation as a recovery of income taxes in the statement of operations and a corresponding reduction in the share capital amounts recorded from the sale of the flow-through shares.

j) Share Issuance Costs

Costs directly identifiable with the raising of capital are charged against the related share capital. Indirect share issue costs, such as legal and printing, are charged to operations and deficit. Direct share issuance costs incurred in advance of share subscriptions are recorded as deferred financing costs. If the related share subscriptions are not completed the deferred costs are charged to operations and deficit.

k) Loss Per Share

Loss per share is calculated based on the weighted average number of shares outstanding. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the dilutive effect on earnings per share is calculated to reflect on the use of the proceeds that could be obtained upon the exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic and diluted losses per share are equal as the assumed conversion of outstanding options and warrants would be anti-dilutive.

l) Stock Based Compensation

The Company applies the Accounting Standard 3870 – "Stock-Based Compensation and Other Stock Based Payments") requirement of the Canadian Institute of Chartered Accountants ("CICA"). Under this standard all stock options granted to non-employees for the receipts of reciprocal services and goods are accounted for at the fair value of the services and goods received. Stock options granted to directors and employees in consideration for compensation are measured at fair value of the shares at the grant date net of the amount, if any, that recipients pay for the options when granted and are expensed with a corresponding increase to contributed surplus. Upon exercise of the stock options, the amount previously recognized in contributed surplus is recorded as an increase to share capital together with any additional consideration paid by the option holder.

m) Asset retirement obligation

The Company applies CICA accounting standard 3110 – "Asset Retirement Obligations" to account for the obligations (see Note 8) to reclaim and remediate the mill and mineral properties. Under the standard, the estimated fair value of the legal obligations are recognized in the period incurred, at the net present value of the cash flows required to settle the future obligations. A corresponding amount is capitalized to the related asset and accounted for in accordance with accounting policies e) and f). The liabilities are subject to accretion over time for increases in the fair value of the liabilities.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. The future income tax liabilities or assets are measured using tax rates and laws expected to apply in the periods that the temporary differences are expected to reverse. Valuation allowances are provided where (net) future income tax assets are not more likely than not to be realized.

o) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, GST receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of the financial instruments approximates their carrying value.

3. ARRANGEMENT AGREEMENT WITH KLONDIKE GOLD CORP.

On July 6, 2005, the Company has entered into an agreement with Klondike Gold Corp. ("KG") to implement a statutory procedure known as a plan of arrangement (the "Arrangement") under Section 288 of the Business Corporations Act (British Columbia). The purpose of the Arrangement was to restructure KG by transferring certain of KG's property, plant and equipment and related obligations in respect of these assets to the Company in exchange for issuance of common shares, share purchase warrants and stock options on a five to one basis (5:1). On September 9, 2005, the shareholders of KG approved the Arrangement at an extraordinary meeting. On October 7, 2005 the Arrangement was completed as follows:

ASSETS ACQUIRED:		
Reclamation bond	$	75,000
Mill		277,361
Equipment, net of accumulated amortization		14,175
Capitalized mineral property costs		607,542
		974,078
LIABILITIES ASSUMED:		
Due to related party		75,000
Asset retirement obligation and accumulated accretion		35,432
		110,432
NET ASSETS ACQUIRED	$	863,646

PURCHASE PRICE ALLOCATION:

Issue of 18,305,752 common shares at the carrying value of $0.046 per share and to issue of 5,245,000 share purchase warrants to purchase a like number of common shares at a weighted average price of $0.172 per share at expiry dates from October 27, 2005 to July 22, 2007.	$	844,946
Issue of stock options to purchase 1,319,000 common shares at a weighted average price of $0.191 per share at expiry dates from June 22, 2006 to September 23, 2009.		18,700
	$	863,646

3. ARRANGEMENT AGREEMENT WITH KLONDIKE GOLD CORP. (continued)

The Company entered into a loan agreement with Klondike Gold Corp. to advance to the Company $100,000 to be used by the Company for necessary working capital and to meet expenses. The working capital loan bears interest from the date of each advance to the day of repayment at the rate of 5% per annum with interest being added to the principal on each annual anniversary of the date of advance or at such time as otherwise may be provided for in the loan agreement.

This loan was repaid at November 29, 2005 and the interest was calculated in the amount of $1,233 for the period from September 1 to November 29, 2005 (90 days) at 5%.

4. RECLAMATION BOND

The reclamation bond consists of deposits made by the Company for a partial indemnification of site restoration costs for the Silvana Mine and Slocan Mill. The deposits are held in trust for the Company by a company controlled by a common director.

5. MILL AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Mill	$ 277,361	$ -	$ 277,361
Equipment	225,341	30,380	194,961
	$ 502,702	$ 30,380	$ 472,322

No depreciation has been taken on the Mill to date. The Company is committed to the preservation of the Mill and has incurred $97,017 for maintenance and caretaking expenses that have been expensed since acquisition to May 31, 2006.

6. MINERAL PROPERTIES

	SLOCAN GROUP	HAULTAIN PROPERTY	TOTAL COSTS
Acquisition costs			
Acquired-KG Arrangement (Note 3)	$ 20,142	$	$ 20,142
Staking costs	-	21,960	21,960
Closing balance	20,142	21,960	42,102
Exploration costs			
Opening balance-KG Arrangement (Note 3)	587,400	-	587,400
Consulting	7,310	-	7,310
Drilling	3,517	-	3,517
Geological	2,451	-	2,451
Mapping and sampling	2,673	-	2,673
Surveying	36,075	-	36,075
Miscellaneous	635	-	635
Site administration	7,735	-	7,735
Closing balance	647,796	-	647,796
Balance, May 31, 2006	$ 667,938	$ 21,960	$ 689,898

7. RELATED PARTY TRANSACTIONS

The following related party transactions are in addition to the related party transactions disclosed in Notes 3 and 4:

a) Pursuant to a management agreement, the Company was charged $87,500 by Hastings Management Corp. ("Hastings"), a private company controlled by a director. The contract is for a one year term and is renewable thereafter. Either party with 30 days notice can terminate it. On January 1, 2006 the management fee was increased to $15,000 per month plus 5% for administrative overhead on out-of-pocket expenses. At May 31, 2006 $7,735 was owed to Hastings Management Corp.

   Hastings provides services to the Company and several public and private companies comprising supervision and administration of the financial requirements of the Company's business, producing quarterly accounts in accordance with public reporting requirements; communicating with various regulatory authorities in order to ensure compliance with all applicable laws; assisting in the preparation of news releases, professional analysis and planning of exploration programs, promotional materials and other documents required to be disseminated to the public and responding to any requests for information or questions which may be posed by the public; providing access to secretarial services and legal consultation; providing office space, office furniture, boardroom facilities, access to photocopier, fax and such other amenities normally associated with office needs; and providing such other additional instructions and directions as the Company may require.

b) Due to related parties of $1,233 is the interest owed to Klondike Gold Corp. on the loan of $100,000. This loan was repaid at November 29, 2005 and the interest was calculated in the amount of $1,233 for the period from September 1, 2005 to November 29, 2005 (90 days) at 5% per annum, and paid subsequently.

8. ASSET RETIREMENT OBLIGATION

Asset retirement obligations are related to the eventual retirement of the Slocan Mill.

The Company estimates the net present value of its recognized asset retirement obligations to be $37,691 as at May 31, 2006, based on a total future liability of $85,000. Payments are expected to be made in the event of the abandonment of the property or during mining activity. Since no abandonment plans are being considered and the Mill is not currently producing, the Company has assumed the payments will be made in 2015. The Company used a credit adjusted risk free rate of nine and three quarter's percent to calculate the net present value of the asset retirement obligation.

	2006 $
Opening Balance	35,432
Accretion expense	2,259
Balance	37,691

The Company may be contingently liable for other asset retirement obligations. However, such obligations are not recognized since the fair value cannot be reasonably estimated due to the uncertainty of the extent of reclamation and remediation work and the settlement dates.

9. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

Issued:

	Number of Shares	Consideration $
Issued at Inception March 2, 2005 and Balance May 31, 2005	1	$ 1
Arrangement agreement (Note 3)	18,305,752	844,946
Warrants exercised for cash (i)	700,000	105,000
Cancel inception share	(1)	(1)
Loan Consideration (ii)	200,000	40,000
Reclamation Bond (iii)	375,000	75,000
Options exercised for cash (iv)	245,000	35,900
Fair value of stock options exercised	-	2,809
Private Placement (v)	10,861,793	2,579,859
Share issuance costs, cash (vi)	-	(94,189)
Tax benefit renounced on flow-through shares	-	(202,000)
Warrants exercised for cash (vii)	1,300,017	257,483
Repricing of stock options (viii)	-	(529)
Balance, May 31, 2006	31,987,562	$ 3,644,319

b) As at May 31, 2006 the following share purchase warrants were outstanding:

Flow-Through Warrants	Non- Flow-Through Warrants	Total Number of Warrants	Exercise Price	Expiry Date
-	69,333	69,333	$0.26250	June 1, 2006
-	170,000	170,000	$0.23125	September 30, 2006
795,000	830,000	1,625,000	$0.18125	March 2, 2007
-	795,000	795,000	$0.12500	July 22, 2007
-	1,500,000	1,500,000	$0.20000	January 10, 2008
-	5,232,443	5,232,443	$0.20000	February 06, 2008
-	375,000	375,000	$0.20000	February 06, 2008
-	4,075,000	4,075,000	$0.40000	May 15, 2008
795,000	13,046,776	13,841,776		

As at May 31, 2006 the weighted average remaining contractual life of the share purchase warrants is 1.59 years and the weighted average exercise price is $0.253.

9. SHARE CAPITAL (continued)

c) Stock options outstanding at May 31, 2006:

	Number of Options	Weighted Average Exercise Price
Balance	3,057,500	$0.443

The following summarizes information about the stock options outstanding as at May 31, 2006:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Number of Options Exercisable
$0.200	804,000	2,31	804,000
$0.530	2,253,500	4,96	2,253,500
	3,057,500	4,26	3,057,500

The allocation of the purchase price to the stock options granted as additional consideration for the net assets acquired from KG (Note 3) is estimated using the Black-Scholes valuation model with the following assumptions: i) Net asset value per share of $0.046; ii) Expected KG share price volatility-99%; iii) Risk free interest rate-3.5%; iv) Expected weighted average life-2.71 years; and v) No dividend yield.

d) Stock Based Compensation

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time. Compensation costs attributable to share options granted to employees, directors or consultants is measured at fair value at the grant date and expensed with a corresponding increase to contributed surplus.

e) Flow-Through Shares

As at May 31, 2006, the Company is committed to spend $1,458,810 on qualifying Canadian exploration expenses.

10. INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rates to the loss as a result of the following:

	2006
Statutory combined federal and provincial rate	35%
Estimated recovery of income taxes at statutory rate	$ 12,000
Tax benefits not recognized on the net loss for the period	(12,000)
	$ -

Losses can be carried forward for up to ten (10) years before they expire. Exploration deduction tax "pools" available for the reduction of future income taxes can be carried forward until there is change of control. The future tax benefits associated with the losses carried forward for income tax purposes are not recognized, as the realization of future income to utilize the losses is uncertain. Income taxes are recovered on the issuance of flow-through shares in the year exploration deductions are renounced.

11. SUBSEQUENT EVENTS

Subsequent to May 31, 2006:

a) On June 06, 2006, the Company announced a Private Placement for the purchase of up to 7,000,000 units priced at $0.40 per unit. Each unit will consist of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share for a period of two years at a price of $0.50 per share.

b) On June 01, 2006 the Company announced the acquisition of a 100% interest in the Haultain Property which consists of 11 claims in Haultain Township, Larder Lake Mining Division, Ontario. Consideration for the Property consists of $110,000 payable over four years, 375,000 shares over four years and a work commitment of $200,000 over four years. There is a 2% net smelter return payable half of which may be purchased for $1,000,000.

c) On June 05, 2006 the Company announced that it has optioned four silver prospects in Yukon. Three of them (Idaho Creek, Connaught, and Magnum) are located near Dawson City, and the fourth (Stump) is situated southeast of Ross River on the periphery of the Ketza Gold Camp.

d) On June 06, 2006 the Company announced that it has optioned Santa Lucia Property in Mexico, located in southern Sonora State. Consideration for the Property consists of US$25,000, 500,000 shares payable over two years and a work commitment of US$1,000,000 over two years. There is a 2.5% net smelter return payable to the vendor of which 50% may be purchased for US$1,000,000.

e) On July 07, 2006 the Company announced the granting 253,000 of incentive stock options to directors and officers of the Company, and 680,000 to employees and consultants at a price of $0.53 per share for a period of five years.