KLONDIKE SILVER CORP.

FINANCIAL STATEMENTS

MAY 31, 2008 AND 2007
(Expressed in Canadian Dollars)

MORGAN & COMPANY
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Klondike Silver Corp.

We have audited the balance sheets of Klondike Silver Corp. as at May 31, 2008 and 2007 and the statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada	"Morgan & Company"
September 24, 2008	Chartered Accountants

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KLONDIKE SILVER CORP.
BALANCE SHEETS

	MAY 31 2008	MAY 31 2007 Restated (Note 13)
ASSETS		
Current		
Cash and cash equivalents	**$ 484,184**	$ 2,647,986
GST receivable	**261,626**	104,436
Prepaid expenses	**51,579**	2,500
	797,389	2,754,922
Due From Related Parties (Note 8)	**163,610**	-
Reclamation Bond (Note 3)	**100,000**	100,000
Mill And Equipment (Note 4)	**982,483**	874,642
Mineral Properties (Note 5 and Schedule)	**10,519,430**	4,059,545
	$ 12,562,912	$ 7,789,109
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 261,844**	$ 125,180
Due to related parties (Note 8)	**178,554**	-
	440,398	125,180
Future Income Taxes	**544,000**	909,000
Asset Retirement Obligations (Note 6)	**45,399**	41,366
	1,029,797	1,075,546
SHAREHOLDERS' EQUITY		
Share Capital (Note 7)	**14,259,623**	7,938,894
Share Subscriptions Received	**173,000**	-
Contributed Surplus	**1,462,448**	972,762
Deficit	**(4,361,956)**	(2,198,093)
	11,533,115	6,713,563
	$ 12,562,912	$ 7,789,109

Approved on behalf of the Board of Directors:

"Richard Hughes"	"Alan Campbell"
Director	Director

The accompanying notes are an integral part of these financial statements.

KLONDIKE SILVER CORP.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEARS ENDED MAY 31	
	2008	2007 Restated (Note 13)
Expenses		
Accretion and amortization	**$ 10,910**	$ 25,496
Consulting fees (Note 8)	**219,950**	276,337
Fuel	**72,610**	34,521
Investor relations, travel and promotion	**303,271**	119,683
Labour and benefits	**149,752**	197,464
Office administration (Note 8)	**462,500**	360,024
Office expenses	**65,700**	22,886
Professional fees	**64,715**	29,506
Regulatory and stock transfer fees	**93,978**	68,196
Stock based compensation	**491,400**	317,000
Part XII.6 tax expense	**117,890**	95,778
Supplies and maintenance	**65,499**	96,873
Utilities and communication	**24,290**	8,653
Loss Before Other Income (Expenses)	**(2,142,465)**	(1,652,417)
Other Income (Expenses)		
Interest earned	**42,847**	17,137
Mineral property abandoned and written off	**(1,202,219)**	(328,847)
Foreign exchange	**(32,025)**	-
	(1,191,397)	(311,710)
Loss Before Income Taxes	**(3,333,862)**	(1,964,127)
Future Income Tax Recovery	**1,170,000**	574,000
Net Loss for the Year	**(2,163,862)**	(1,390,127)
Loss Per Share – Basic and diluted	**$ (0.04)**	$ (0.03)
Weighted Average Number Of Shares Outstanding	**59,614,700**	41,943,138

The accompanying notes are an integral part of these financial statements.

KLONDIKE SILVER CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended May 31, 2008 and 2007

	SHARE CAPITAL		SHARE	CONTRIBUTED		
	NUMBER	AMOUNT	SUBSCRIPTIONS	SURPLUS	DEFICIT Restated (Note 13)	TOTAL
Balance, May 31, 2006	31,987,561	$ 3,272,879	$ -	$ 658,620	$ (807,967)	$ 3,123,532
Issue of shares for mineral properties	1,041,000	460,890	-	-	-	460,890
Issue of shares for cash, private placements						
Flow-through shares	7,675,000	3,451,500	-	-	-	3,451,500
Non flow-through shares	3,970,000	1,595,000	-	-	-	1,595,000
Share issuance costs	-	(232,400)	-	-	-	(232,400)
Warrants exercised for cash	2,326,666	447,468	-	-	-	447,468
Stock options exercised for cash	261,500	52,300	-	-	-	52,300
Contributed surplus	-	2,857	-	(2,857)	-	-
Stock based compensation	-	-	-	317,000	-	317,000
Share subscriptions receivable	-	371,400	-	-	-	371,400
Tax benefits renounced on flow-through shares	-	(1,483,000)	-	-	-	(1,483,000)
			-			
Net loss for the year	-	-		-	(1,390,127)	(1,390,127)
Balance, May 31, 2007	47,261,727	7,938,894	-	972,763	(2,198,094)	6,713,563
Issue of shares for mineral properties	1,100,000	420,250	-	-	-	420,250
Issue of shares for cash, private placements						
Flow-through shares	6,890,833	2,451,500	-	-	-	2,451,500
Non flow-through shares	9,380,801	3,090,490	-	-	-	3,090,490
Share issuance costs	-	(222,860)	-	-	-	(222,860)
Warrants exercised for cash	7,111,793	1,362,734	-	-	-	1,362,734
Stock options exercised for cash	109,500	21,900	-	-	-	21,900
Contributed surplus	-	1,715	-	(1,715)	-	-
Stock based compensation	-	-	-	491,400	-	491,400
Tax benefits renounced on flow-through shares	-	(805,000)	-	-	-	(805,000)
Net loss for the year	-	-	-	-	(2,163,862)	(2,163,862)
Share subscriptions received	-		173,000	-	-	173,000
Balance, May 31, 2008	**71,854,654**	**$ 14,259,623**	**$ 173,000**	**$ 1,462,448**	**$ (4,361,956)**	**$ 11,533,115**

KLONDIKE SILVER CORP.
STATEMENTS OF CASH FLOWS

	YEARS ENDED MAY 31 2008	2007 Restated (Note 13)
Cash Flows Provided By (Used In):		
Operating Activities		
Net loss for the year	**$ (2,163,862)**	$ (1,390,127)
Non-cash items:		
Accretion and amortization	**10,910**	25,496
Stock based compensation	**491,400**	317,000
Mineral property write off	**1,202,219**	328,847
Future income taxes	**(1,170,000)**	(574,000)
	(1,629,333)	(1,292,784)
Changes in non-cash operating assets and liabilities:		
GST receivable	**(157,190)**	(69,728)
Prepaid expenses	**(49,079)**	315
Accounts payable and accrued liabilities	**8,330**	119,904
Due to related parties	**19,232**	(7,735)
	(1,808,040)	(1,250,028)
Investing Activities		
Equipment purchases	**(318,657)**	(497,820)
Reclamation bonds	**-**	(25,000)
Mineral property exploration advances	**194,411**	(799,916)
Mineral property acquisition and exploration expenditures	**(6,944,670)**	(2,364,009)
Due from related parties	**(163,610)**	-
	(7,232,526)	(3,686,745)
Financing Activities		
Share subscriptions received	**173,000**	-
Shares issued	**6,926,624**	5,917,669
Share issue costs	**(222,860)**	(232,400)
	6,876,764	5,685,269
Net (Decrease) Increase in Cash and Cash Equivalents	**(2,163,802)**	748,496
Cash and Cash Equivalents, Beginning of Year	**2,647,986**	1,899,490
Cash and Equivalents, End of Year	**$ 484,184**	$ 2,647,986

Supplemental Cash Flow Information (Note 10)

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). The Company is a public company listed on the TSX Venture Exchange (the "TSX.V"), trading under the "KS" symbol. 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 the amounts shown as mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Managements' plan in this regard is to secure additional funds through future equity financings, which may not be available or may not be available on reasonable terms.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception of $4,361,956, and the Company will need additional funds to continue to explore and, if exploration is successful, to develop its properties. As at May 31, 2008, the Company did not have sufficient cash to meet minimum general and administration expenses for the year ending May 31, 2009. These factors create substantial doubt as to the ability of the Company to continue as a going concern unless sufficient funds are raised for ongoing operations. The Company intends to raise funds by private placements. These financial statements do not include adjustments that would be necessary should it be determined that the Company may be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) 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.

Significant areas requiring the use of management estimates relate to the identification and capitalization of exploration costs, determination of impairment in the carrying values for long-lived assets, future asset retirement costs of mill and equipment, the existence of contingent assets and liabilities, and values ascribed to related party transactions and balances and future income taxes. Management reviews significant estimates on a periodic basis and, when changes in estimates are necessary, makes adjustments prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Financial Instruments

The Company's financial instruments comprise cash and cash equivalents, GST receivable, reclamation bond, exploration advances, accounts payable and accrued liabilities, and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from the financial instruments. The fair value of the financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company is affected by changes between its reporting and foreign functional currencies. The Company monitors its foreign currency balances to mitigate these risks.

c) Foreign Currency Translation

The Company's reporting currency is the Canadian dollar. Transactions in United States ("US") and other foreign currencies have been translated into Canadian dollars using the temporal method as follows:

i) Monetary items at the rate prevailing at the balance sheet date;
ii) Non-monetary items at the historical exchange rate;
iii) Revenues and expenses at the average rate in effect during the applicable accounting period; and
iv) Gains or losses arising on translation are included in the statement of loss and deficit.

d) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change and have initial maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

e) Mill and Equipment

The mill comprises a used ore processing plant, used buildings and related equipment stated at cost. On commencement of commercial production, costs including improvements will be depreciated over the estimated useful life of the mill on the unit-of production method, based upon estimated productive capacity. Amortization on equipment is provided on the straight line method over estimated useful lives ranging from three to five years.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Mineral Properties

Mineral properties comprise acquisition costs including option payments to maintain mineral property titles in good standing and 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. 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. Recorded amounts are capitalized until the properties are sold, abandoned, brought into production or not worked for a period of time. Capitalized costs related to sold or abandoned properties are written off in the period of sale or abandonment. Capitalized costs related to producing properties will be depleted over the estimated lives of the ore reserves.

g) Impairment of Long-Lived Assets

The Company follows the recommendations in CICA Handbook Section 3063 – "Impairment of Long-Lived Assets" and the CICA's Emerging Issues Committee ("EIC") emerging extract EIC-126 – "Accounting by Mining Enterprises for Exploration Costs". Section 3063 requires that the Company review long-lived assets, including mining properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant. EIC-126 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the development stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired the capitalized costs is written down to the estimated recoverable amount.

h) Asset Retirement Obligations

The Company applies CICA accounting standard 3110 – "Asset Retirement Obligations" to account for the obligations 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 asset retirement obligations 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)

i) Share Capital

i) Share consideration - Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration is based upon the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method

ii) Flow-through shares - Resource expenditure deductions for Canadian income tax purposes related to Canadian 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, a future income tax liability and a corresponding reduction in the share capital is recorded. Future income tax liabilities are offset by available future income tax assets and the Company realizes a future income tax benefit in the statement of operations as a recovery of future income taxes renounced to investors.

iii) Stock based compensation - Compensatory stock option transactions with directors, officers, employees and outside consultants are charged to operations or capitalized to mineral properties with an offsetting credit to contributed surplus. Stock options which vest immediately are recorded at the date of grant. Stock options issued to directors, officers and employees that vest over time are valued at the grant date and recorded using the straight line method over the vesting period. Stock options issued to outside consultants that vest over time are valued at the grant date and recorded using the straight line method as the services are received and subsequently re-valued and adjusted on each vesting date. Consideration received on the exercise of stock options together with the related portion previously recorded in contributed surplus is credited to share capital.

iv) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

j) Earnings (Loss) Per Share

Earnings (loss) per share are 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) 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.

l) Variable Interest Entities

The CICA issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, to provide accounting guidance related to variable interest entities (“VIE”). A VIE is an entity in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinates financial support. The Company has determined that it does not have a primary beneficiary interest in a VIE.

m) Accounting policy changes

Effective November 1, 2006, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to financial instruments under CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments - Disclosure and Presentation, Section 3865 Hedges and Section 1530 Comprehensive Income. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

i) CICA Section 3855, Financial Instruments – Recognition and Measurement, sets out criteria for the recognition and measurement of financial instruments. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company’s balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered and most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statement of operations or accumulated other comprehensive income, depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company’s outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if the requirements had always been in effect. Changes to the fair value of assets and liabilities prior to adoption are recognized by adjusting opening deficit or opening “other accumulated comprehensive income”.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Accounting policy changes (continued)

All financial instruments are classified into one of the following five categories: held-for- trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification as follows: (1) held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings in the period in which they arise; (2) held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost and amortization of premiums or discounts and losses due to impairment are included in current period net earnings; (3) available-for-sale financial assets are measured at fair value and changes in fair value are included in “other comprehensive income” until the gain or loss is recognized in income; (4) all derivative financial instruments are measured at fair value, even when they are part of a hedging relationship and changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized as other comprehensive income.

In accordance with this new standard, the Company has classified its cash and equivalents and short-term investments as held-for-trading. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other liabilities. Derivatives embedded in other financial instruments must be separated and measured at fair value. The Company currently does not have embedded derivatives.

ii) CICA Section 3861, *Financial Instruments – Disclosure and Presentation*, establishes the requirements for the disclosure and presentation of financial instruments and non-financial derivatives.

iii) CICA Section 3865, *Hedging*, specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

iv) CICA Section 1530, *Comprehensive Income*, specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in the Company’s shareholder equity that results from transactions and other events from other than the Company’s shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other comprehensive income until such items are realized.

This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders’ equity. As there were no other comprehensive income items, comprehensive loss for the year was equal to the net loss for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Accounting policy changes (continued)

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective June 1, 2007, which requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments were required.

Effective January 1, 2007, the Company adopted CICA Section 1506, Accounting Changes, effective for annual and interim periods beginning on or after January 1, 2007. The new standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company on any new primary source of GAAP that has been issued but is not yet effective. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

n) Future accounting pronouncements

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

i) On January 8, 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Section 3064, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

ii) On September 15 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. Section 1535, Capital Disclosures requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

o) Comparative Amounts

Certain of the prior year's comparative numbers have been reclassified to conform to the current year's presentation.

3. RECLAMATION BOND

The reclamation bond is recorded at fair value and consists of deposits made by the Company for indemnification of site restoration costs for the Silvana Mine and Sandon Mill. The deposits are held in trust for the Company by a company controlled by a common director.

4. MILL AND EQUIPMENT

	MAY 31, 2008		
	COST	**ACCUMULATED AMORTIZATION**	**NET BOOK VALUE**
Mill	**$ 277,361**	**$ -**	**$ 277,361**
Equipment	**1,041,818**	**336,696**	**705,122**
	$ 1,319,179	**$ 336,696**	**$ 982,483**

	MAY 31, 2007		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Mill	$ 277,361	$ -	$ 277,361
Equipment	723,161	125,880	597,281
	$ 1,000,522	$ 125,880	$ 874,642

No amortization has been taken on the Mill to date as it was not in use as of May 31, 2008 and 2007. Amortization on exploration use of equipment in the amount of $203,939 (2007 - $NIL) has been capitalized in mineral properties.

5. MINERAL PROPERTIES

	MAY 31, 2008		
	ACQUISITION COSTS AND OPTION PAYMENTS	**DEFERRED EXPLORATION COSTS AND ADVANCES**	**TOTAL**
Canadian Properties			
British Columbia (a)	**$ 687,998**	**$ 2,957,067**	**$ 3,645,065**
Ontario (b), (c), (d), (e), (f), (g), (h), (i), (j)	**715,032**	**2,837,346**	**3,552,378**
Yukon (k), (l), (n) , (o)	**357,500**	**1,137,880**	**1,495,380**
Mexican Properties			
Mexico (p), (q), (r), (s), (t), (u)	**743,525**	**1,083,082**	**1,826,607**
	$ 2,504,055	**$ 8,015,375**	**$ 10,519,430**

5. MINERAL PROPERTIES (Continued)

	MAY 31, 2007		
	ACQUISITION COSTS AND OPTION PAYMENTS	DEFERRED EXPLORATION COSTS AND ADVANCES	TOTAL
Canadian Properties			
British Columbia (a)	$ 687,682	$ 1,088,893	$ 1,776,575
Ontario (b), (c), (d)	163,210	35,863	199,073
Yukon (k), (l;), (m), (n)	275,000	1,126,322	1,401,322
Mexican Properties			
Mexico (p), (q)	349,544	333,031	682,575
	$ 1,475,436	$ 2,584,109	$ 4,059,545

See the accompanying Schedule of Mineral Property Costs for nature of expenditure disclosure.

a) Slocan Group, British Columbia

The Slocan Group covers an area of approximately 100 square kilometers. The claims include legacy claims, crown-granted claims and recently acquired or converted mineral claims. Not all claims are contiguous. One claim group is located approximately 7 km northeast of the Sandon Mill and another claim group is 7 km to the southeast.

b) Haultain Property, Ontario

On May 5, 2006 the Company entered into a property option agreement to earn a 100% interest in a mineral property located in the Haultain Mining Division in Ontario. The agreement provides for a 2% net smelter royalty (“NSR”) of which have may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $30,000 (paid) and issue 75,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $20,000 (paid), issue 75,000 shares (issued) and incur $50,000 in exploration expenditures.

iii) 24 months from regulatory approval, pay $20,000 (paid subsequent to year end), issue 75,000 shares (issued subsequent to year end) and incur $100,000 in exploration expenditures.

iv) 36 months from regulatory approval, pay $20,000, issue 75,000 shares and incur $150,000 in exploration expenditures.

v) 48 months from regulatory approval, pay $20,000, issue 75,000 shares and incur $200,000 in exploration expenditures.

5. MINERAL PROPERTIES (Continued)

c) Wigwam – Silverdollar Property, Ontario

On February 5, 2007 the Company entered into a property option agreement to earn a 100% interest in a mineral property located in Haultain, Chown, and Lawson Townships, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $15,000 (paid) and issue 50,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $15,000 (paid), issue 50,000 shares (issued) and incur $25,000 in exploration expenditures.

iii) 24 months from regulatory approval, pay $15,000 (paid), issue 50,000 shares (issued) and incur aggregate $75,000 in exploration expenditures.

iv) 36 months from regulatory approval, pay $15,000, issue 50,000 shares and incur an aggregate of $150,000 in exploration expenditures.

d) Milner Silver Property, Ontario

On February 5, 2007 the Company entered into a property option agreement to earn a 100% interest in a mineral property located in Milner Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $10,000 (paid) and issue 50,000 shares issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $10,000 (paid), issue 50,000 shares (issued) and incur $25,000 in exploration expenditures (incurred).

iii) 24 months from regulatory approval, pay $10,000 (paid), issue 50,000 shares (issued) and incur aggregate $50,000 in exploration expenditures (incurred).

iv) 36 months from regulatory approval, pay $10,000, issue 50,000 shares and incur an aggregate of $75,000 in exploration expenditures.

e) Maralgo Property, Ontario

On June 15, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Milner Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $20,000 (paid) and issue 75,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $10,000 (paid subsequent to year end) and issue 75,000 shares (issued subsequent to year end).

iii) 24 months from regulatory approval, pay $20,000 and issue 75,000 shares.

5. MINERAL PROPERTIES (Continued)

f) South Bay, Ontario

On July 27, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Milner Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $10,000 (paid) and issue 50,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $15,000 and issue 25,000 shares.

iii) 24 months from regulatory approval, pay $25,000 and issue 25,000 shares.

iv) 36 months from regulatory approval, pay $35,000.

g) Walsh Silver Property, Ontario

On July 27, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Nicol Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $10,000 (paid) and issue 50,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $15,000 and issue 25,000 shares.

iii) 24 months from regulatory approval, pay $25,000 and issue 25,000 shares.

iv) 36 months from regulatory approval, pay $35,000.

h) Anvil Silver Property, Ontario

On September 16, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Van Nostrand Township, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

5. MINERAL PROPERTIES (Continued)

h) Anvil Silver Property, Ontario (continued)

i) Pay $20,000 (paid) and issue 75,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $20,000 and issue 75,000 shares.

iii) 24 months from regulatory approval, pay $20,000 and issue 75,000 shares.

iv) 36 months from regulatory approval, pay $20,000 and issue 75,000 shares.

i) Cleaver Property, Ontario

On September 16, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Cleaver and McNeil Townships, Ontario. There is a 2% NSR payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $75,000 (paid) and issue 50,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $25,000 and issue 50,000 shares.

iii) 24 months from regulatory approval, pay $25,000 and issue 50,000 shares.

iv) 36 months from regulatory approval, pay $25,000 and issue 50,000 shares.

v) 48 months from regulatory approval, pay $25,000 and issue 50,000 shares.

j) Reeves Lake Property, Ontario

On September 21, 2007, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Milner Township, Ontario. There is a 2% NSR payable, of which 1% can be purchased for $500,000 and the balance of 1% can be purchased for a further $500,000. In order to earn its 100% interest, the Company must:

i) Pay $10,000 (paid) upon regulatory approval.

ii) 12 months from regulatory approval, pay $15,000 in cash or an equivalent value in shares.

iii) 24 months from regulatory approval, pay $25,000 in cash or an equivalent value in shares.

5. MINERAL PROPERTIES (Continued)

k) Idaho Creek Property, Yukon

On May 23, 2006 the Company entered into a property option agreement to earn a 50% interest in a mineral property located in the Whitehorse Mining District in Yukon Territory. In order to earn its 50% interest, the Company must:

i) Issue 100,000 shares (issued) upon regulatory approval.

ii) On or before December 31, 2006 issue 100,000 shares (issued).

iii) On or before May 31, 2007 issue 100,000 shares (issued) and incur $500,000 in exploration expenditures (incurred).

iv) On or before December 31, 2007 issue 200,000 shares.

v) On or before May 31, 2008 incur aggregate $1,000,000 in exploration expenditures.

vi) On or before May 31, 2009 incur aggregate $2,000,000 in exploration expenditures.

In November 2007, this property was abandoned and written off.

l) Connaught Property, Yukon

On May 31, 2006 the Company entered into a property option agreement to earn a 50% interest in a mineral property located in the Dawson Mining District in Yukon Territory. In order to earn its 50% interest, the Company must:

i) Upon signing, pay $50,000 (paid).

ii) Upon regulatory approval, issue 100,000 shares (issued).

iii) On or before December 31, 2006, issue 100,000 shares (issued).

iv) On or before May 31, 2007, issue 100,000 shares (issued) and incur $300,000 in exploration expenditures (incurred).

v) On or before December 31, 2007, issue 100,000 shares (issued).

vi) On or before May 31, 2008, issue 100,000 shares (issued subsequent to year end) and incur aggregate 600,000 in exploration expenditures.

vii) On or before May 31, 2009, incur aggregate $1,000,000 in exploration expenditures.

5. MINERAL PROPERTIES (Continued)

m) Magnum Property, Yukon

On May 28, 2006 the Company entered into a property option agreement to earn a 50% interest in a mineral property located in the Dawson Mining District in Yukon Territory. In order to earn its 50% interest, the Company must:

i) Upon regulatory approval, issue 100,000 shares (issued).

ii) On or before May 31, 2007, issue 100,000 shares (issued) and incur $300,000 in exploration expenditures.

iii) On or before May 31, 2008, issue 100,000 shares and incur $600,000 in exploration expenditures.

iv) On or before May 31, 2009, incur $1,000,000 in exploration expenditures.

In May 2007, this property was abandoned and written off.

n) Stump Property, Yukon

On May 28, 2006, the Company entered into a property option agreement to earn a 100% interest in a mineral property located in the Watson Lake Mining District in Yukon Territory. There is a NSR that could range from 2 to 5% depending upon the amount of processing the ores receive prior to smelting. As of May 31, 2008 the Company has earned its 100% interest in the Stump Property for a total consideration of 300,000 shares.

o) Nordling Property, Yukon Territory

On November 26, 2007 the Company entered into a property option agreement to earn a 50% interest in a mineral property, located in Yukon Territory. In order to earn its 50% interest, the Company must:

i) Pay $8,500 (paid) and issue 25,000 shares (issued) upon regulatory approval.

ii) 12 months from regulatory approval, pay $7,500 and issue 37,500 shares.

iii) 24 months from regulatory approval, pay $12,500 and issue 50,000 shares.

iv) 36 months from regulatory approval, pay $25,000 and issue 125,000 shares.

Any production from the Nordling Property is subject to a NSR of between 2% and 5%, depending upon how the ores are handled. A total of ½ of the 2% NSR can be purchased at any time for $1,000,000.

5. MINERAL PROPERTIES (Continued)

p) Santa Lucia Property, Mexico

On June 6, 2006, the Company entered into a property option agreement with Kootenay Gold Inc. (“Kootenay”), a company related by a common director, to earn a 50% interest in a mineral property located in the southern Sonora State. In order to earn its 50% interest, the Company must:

i) Upon TSX approval, issue 200,000 shares (issued);

ii) On or before June 6, 2007, issue 100,000 shares (issued) and incur $200,000 in exploration expenditures;

iii) On or before June 6, 2008, issue 200,000 shares (subsequently issued) and incur an aggregate of $500,000 in exploration expenditures; and

iv) On or before June 6, 2009, incur an aggregate of $1,000,000 in exploration expenditures.

q) Starling Anomalies, Mexico

On June 21, 2006, the Company entered into a letter agreement (Phase I) with Kootenay, a company related by a common director, to acquire by staking certain properties in Mexico by paying US$250,000 (paid). Upon completion of the staking the Company has the right to enter into agreements with Kootenay to earn up to a 50% interest in three of the staked mineral properties of approximately 10,000 hectares each. In order to earn its 50% interest in each of the properties, the Company must:

i) Issue 500,000 shares upon regulatory approval (received) over two years.

ii) Incur US$1,000,000 in exploration expenditures within three years.

The Company also had the right to elect to participate in a further staking program and option additional claims.

On June 18, 2007, the Company entered into a subsequent letter agreement (Phase II) with Kootenay, to confirm the Company elected to participate in optioning further properties under the identical option as the June 21, 2006 agreement by advancing an additional US$250,000 in increments of US$50,000.

The Company also agreed in the subsequent letter agreement to extend the selection of the three Phase I properties to November 15, 2007 and in return to fund continued evaluation of the Phase I targets, not to exceed US$125,000, which funds would be applied to first year option payments.

On March 28, 2008, the Company selected its six properties, as follows:

- Cerro Colorado
- Espiritu
- Los Alamos
- Los Chinos
- Ofelia
- Suzanne

5. MINERAL PROPERTIES (Continued)

q) Starling Anomalies, Mexico (continued)

Payment was as outlined in Phase I (US$100,000 per property, 500,000 shares over three years and exploration expenditures of US$1,000,000 over three years). Regulatory approval for the six optioned properties was received on August 18, 2008. The Company issued 300,000 shares on each of the six properties subsequent to year end.

r) Alaska North Property, Mexico

On March 31, 2008 the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Mexico. There is a 3% NSR payable, of which up to 2% may be purchased for US$2,000,000 (US$500,000 per 0.5% in increments). In order to earn its 100% interest, the Company must pay $420,000 and issue 300,000 shares over a 60 month period as follows:

i) Pay US$7,500 (paid) and issue 50,000 shares (issued subsequent to year end) upon regulatory approval.

ii) 6 months from regulatory approval, pay US$12,500.

iii) 12 months from regulatory approval, pay US$25,000 and issue 50,000 shares.

iv) 18 months from regulatory approval, pay US$25,000.

v) 24 months from regulatory approval, pay US$50,000 and issue 50,000 shares.

vi) 30 months from regulatory approval, pay US$50,000.

vii) 36 months from regulatory approval, pay US$50,000 and issue 50,000 shares.

viii) 42 months from regulatory approval, pay US$100,000.

ix) 48 months from regulatory approval, pay US$100,000 and issue 50,000 shares.

x) 60 months from regulatory approval Issue 50,000 shares.

5. MINERAL PROPERTIES (Continued)

s) Alaska South Property, Mexico

On March 31, 2008 the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Mexico. There is a 3% NSR payable, of which 2% may be purchased for US$2,000,000 (US$500,000 per 0.5% in increments). In order to earn its 100% interest, the Company must pay $420,000 and issue 300,000 shares over a 60 month period as follows:

xi) Pay US$7,500 (paid) and issue 50,000 shares (issued subsequent to year end) upon regulatory approval.

xii) 6 months from regulatory approval, pay US$12,500.

xiii) 12 months from regulatory approval, pay US$25,000 and issue 50,000 shares.

xiv) 18 months from regulatory approval, pay US$25,000.

xv) 24 months from regulatory approval, pay US$50,000 and issue 50,000 shares.

xvi) 30 months from regulatory approval, pay US$50,000.

xvii) 36 months from regulatory approval, pay US$50,000 and issue 50,000 shares.

xviii) 42 months from regulatory approval, pay US$100,000.

xix) 48 months from regulatory approval, pay US$100,000 and issue 50,000 shares.

xx) 60 months from regulatory approval Issue 50,000 shares.

6. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are related to the eventual retirement of the Silvana Mine and the Sandon Mill.

The Company estimates the net present value of its recognized asset retirement obligations to be $45,399 as at May 31, 2008, 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.

Balance, May 31, 2006	$	35,432
Accretion expense		5,934
Balance, May 31, 2007		41,366
Accretion expense		4,033
Balance, May 31, 2008	**$**	**45,399**

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.

7. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value

b) Issued

Year ended May 31, 2008:

i) In December 2007, the Company closed a private placement of 5,178,301 units priced at $0.45 for flow-through and $0.30 for non flow-through units for gross proceeds of $1,598,490. 300,000 units consisted of one flow-through common share and one share purchase warrant and 4,878,301 units consisted of one non flow-through common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional share for a period of two years at a price of $0.40 per share in the first year and at a price of $0.50 per share in the second year.

7. SHARE CAPITAL (Continued)

b) Issued (continued):

ii) In December 2007, the Company closed a private placement of 3,510,000 units priced at $0.45 for flow-through and $0.30 for non flow-through units for gross proceeds of $1,318,500. 1,770,000 units consisted of one flow-through common share and one share purchase warrant and 1,740,000 units consisted of one non flow-through common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.40 per share in the first year and at a price of $0.50 per share in the second year.

iii) In December 2007, the Company closed a private placement of 4,083,333 units priced at $0.30 for gross proceeds of $1,225,000. Each unit consisted of one flow-through common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.40 per share in the first year and at a price of $0.50 per share in the second year.

iv) In August 2007, the Company closed a private placement of 3,500,000 units priced at $0.40 per share for gross proceeds of $1,400,000. 737,500 units consisted of one flow-through common share and one share purchase warrant and 2,762,500 units consisted of one non flow-through common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.40 during the first year and $0.50 thereafter.

v) The Company incurred $222,860 share issuance costs pursuant to the private placements closed in the year.

Year ended May 31, 2007:

i) In February 2007, the Company closed a private placement of 70,000 units priced at $0.50 per unit for gross proceeds in the amount of $35,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.60 per share.

ii) In December 2006, the Company closed its private placement of 3,885,000 units priced at $0.50 per unit for gross proceeds in the amount of $1,907,500. 3,815,000 units consisted of one flow-through common share and one share purchase warrant and 70,000 units consisted of one non flow-through common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.60 per share.

7. SHARE CAPITAL (Continued)

b) Issued (continued)

iii) On August 3, 2006 the Company closed its private placement of 7,760,000 units priced at $0.40 per unit for gross proceeds in the amount of $3,104,000. 3,860,000 units consisted of one flow-through common share and one share purchase warrant and 3,900,000 units consisted of one non flow-through common share and one share purchase warrant. Warrants are exercisable at a price of $0.50 per share and expire on August 3, 2008.

iv) The Company incurred $378,269 share issuance costs pursuant to the private placements closed in the year.

c) Share Purchase Warrants

The following is a summary of the changes in warrants during the years ended May 31, 2008 and 2007:

	Number of warrants	Exercise prices
Outstanding and exercisable at May 31, 2006	13,841,775	
Warrants exercised	(2,326,666)	$ 0.18, $0.23, $0.26
Warrants expired	(212,666)	$ 0.18, $0.26
Private placements	11,645,000	$ 0.50, $0.60
Outstanding and exercisable at May 31, 2007	22,947,443	
Warrants granted	16,271,634	$0.40, $0.50
Warrants expired	(4,190,650)	$ 0.20 & 0.40
Warrants exercised	(7,111,793)	$ 0.20
Outstanding at May 31, 2008	27,916,634	

As at May 31, 2008 the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
7,760,000	$ 0.50	August 3, 2008
3,815,000	$ 0.60	December 20, 2008
70,000	$ 0.60	February 15, 2009
3,500,000	$ 0.40/0.50	August 10, 2008/August 10, 2009
5,178,301	$ 0.40/0.50	December 3, 2008/December 3, 2009
3,510,000	$ 0.40/0.50	December 27, 2008/December 27, 2009
4,083,333	$ 0.40/0.50	December 27, 2008/December 27, 2009
27,916,634		

7. SHARE CAPITAL (Continued)

c) Share Purchase Warrants (continued)

As at May 31, 2008 the weighted average remaining contractual life of the share purchase warrants is 0.98 years and the weighted average exercise price is $0.51.

Subsequent to May 31, 2008, 7,760,000 share purchase warrants expired unexercised.

d) Stock Options

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company exercisable pursuant to options granted under the Plan may not exceed ten percent of the issued and outstanding shares of the Company at the grant date. Options granted under the Plan may have a maximum term of five years. The exercise price of options granted under the Plan will not be less than the discounted market price of the shares (defined as the last closing market price of the Company's shares immediately preceding the grant date, less the maximum discount permitted by TSX.V policy), or such other price as may be agreed to by the Company and accepted by the TSX.V. Stock options granted to consultants providing investor relations activities under the Plan are subject to minimum vesting restrictions such that one-quarter of the option shall vest on each of the date grant and three, six and twelve months thereafter.

The following is a summary of the changes in stock options for the years ended May 31, 2008 and 2007:

	Number of options	Weighted Average Exercise price
Outstanding and exercisable at May 31, 2006	3,057,500	$0.37
Options exercised	(261,500)	$ 0.20
Options cancelled	(4,000)	$ 0.20
Options granted	933,000	$ 0.51
Outstanding and exercisable at May 31, 2007	3,725,000	$0.48
Options granted	3,070,000	$0.28
Options expired	(6,000)	$0.20
Options exercised	(109,500)	$0.20
Outstanding and exercisable at May 31, 2008	6,679,500	$0.39

As of May 31, 2008 there were 6,679,500 options outstanding as follows:

EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
$ 0.20	423,000	1.1
$ 0.53	2,253,500	3.0
$ 0.51	933,000	3.1
$ 0.28	3,070,000	4.7
	6,679,500	3.7

7. SHARE CAPITAL (Continued)

d) Stock Options (continued)

i) On January 31, 2008 the Company granted 1,100,000 incentive stock options to directors and officers of the Company, and 1,970,000 to employees and consultants for a period of five years. The fair value of the stock based compensation options was estimated on the date of grant in the amount of $491,400 Using the Black-Scholes valuation model with the following assumptions: i) Exercise price per share of $0.28; ii) Expected share price volatility – 78%; iii) risk free interest rate - 3%; iv) expected life - 5 years; and v) no dividend yield.

ii) On July 7, 2006 the Company granted 253,000 incentive stock options to directors and officers of the Company, and 680,000 to employees and consultants for a period of five years. The fair value of the stock based compensation options was estimated on the date of grant in the amount of $253,200 using the Black-Scholes valuation model with the following assumptions: i) Exercise price per share of $0.51; ii) Expected KG share price volatility – 80%; iii) Risk free interest rate – 4.%; iv) Expected life – 3 years; and v) No dividend yield.

Included in stock based compensation expense is $176,072 (2007 - $85,960) for options issued to directors and officers.

e) Escrowed Shares and Warrants

Pursuant to a plan of arrangement completed by the Company in 2005, 1,374,143 common shares and 76,000 share purchase warrants were placed in escrow pursuant to an escrow agreement. The securities will be released as to 10% on April 17, 2006 and six tranches of 15% every six months to April 17, 2009. At May 31, 2008 there were 412,245 shares held in escrow (2007 - 824,486).

8. DUE FROM/TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Related party balances consisted of the following:

	2008	2007
Due from public companies related by a director in common	**$ 163,610**	**$ -**
Due to directors and companies with directors in common	**$ (178,554)**	$ -

The above amounts were unsecured, non-interest bearing and had no specified terms of repayment.

Transactions with related parties were in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration agreed to and established by the related parties. In addition to the related party transactions reported in the mineral properties and share capital notes, the Company had the following related party transactions during the years ended May 31, 2008 and 2007:

8. DUE FROM/TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

a) Pursuant to a management agreement contract with Hastings Management Corp. ("Hastings"), a private company controlled by a director, the Company was charged $462,500 (2007 - $360,024) during the year ended May 31. The contract is for a one-year term and is renewable thereafter. Either party with 30 days notice can terminate it. The services to the Company included supervision and administration of the financial requirements of the Company's business, producing quarterly and year end 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 required. At May 31, 2008, $4,643 (2007 - $Nil) was owed to Hastings.

b) Consulting fees in the aggregate of $157,500 (2007 - $160,000) were paid to directors and officers during the period.

c) The Company paid during the year $Nil (2007 - $9,691) to Bear Creek Equipment Limited for exploration expenses. Hastings owns part of this company.

9. INCOME TAXES

a) Provision for Income Taxes

The Company's provision for income taxes for the years ended May 31, 2008 and 2007 differs from the amounts computed by applying the statutory income tax rates to the loss before income taxes as a result of the following:

	YEARS ENDED MAY 31	
	2008	2007 Restated
Statutory combined federal and provincial rate	**33%**	34%
Computed recovery of income taxes at statutory rates	**$ (1,100,000)**	$ (670,000)
Non-deductible expenses	**162,000**	108,000
Effect of change in tax rate for future income tax assets	**(30,000)**	-
Temporary differences	**400,000**	121,000
Tax benefits (recognized)	**(602,000)**	(133,000)
	$ (1,170,000)	$ (574,000)

9. INCOME TAXES (Continued)

b) Future Income Tax Assets and Liabilities

The significant components of the Company's future income taxes assets and liabilities were as follows:

	MAY 31	
	2008	2007 Restated (Note 13)
Non-capital loss carried forward	**$ 853,000**	$ 564,000
Exploration resource deductions net of renounced amounts	**(1,623,000)**	(1,599,000)
Capital assets	**134,000**	43,000
Share issue costs	**92,000**	83,000
	$ (544,000)	$ (909,000)

The Company has an available tax loss of approximately $3,282,000 which may be carried forward and used to reduce taxable losses in future years. The accumulated non-capital losses expire as follows:

2026	360,000
2027	1,293,000
2028	1,629,000
	$ 3,282,000

c) Flow-through resource expenditures

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

During the year ended May 31, 2008, the Company raised and renounced $2,595,594 in flow-through share financings. As of May 31, 2008 a balance of approximately $359,000 remained to be spent on exploration expenditures on the Company's Canadian exploration properties.

10. SUPPLEMENTAL CASH FLOW INFORMATION

a) Non-Cash Investing and Financing Activities:

Year ended May 31, 2008:

1,110,000 common shares were issued for property acquisition option payments.

Year ended May 31, 2007:

1,041,000 common shares were issued for property acquisition option payments.

b) Interest and Income Taxes Paid in Cash:

Interest in the amount of $165,800 was paid in the year ended May 31, 2008 (2007 - $9,427).

No income taxes were paid in either of the years ended May 31, 2008 or 2007.

11. SEGMENTED INFORMATION

The Company's mineral properties acquisition and exploration activities were in Canada and Mexico. The Company is in the exploration stage and has no reportable segment revenues. The Company's net loss for the years ended May 31, 2008 and 2007 were incurred in Canada. The Company's total assets were segmented geographically as follows:

	MAY 31	
	2008	2007
Canada	**$ 10,736,305**	$ 7,106,534
Mexico	**1,826,607**	682,575
	$ 12,562,912	$ 7,789,109

12. SUBSEQUENT EVENTS

Subsidiary

a) In June 2008, the Company completed the incorporation of its subsidiary Slocan Silver S.A. de C.V. registered on April 28, 2008 in Mexico.

Private Placements

b) In July 2008, the Company closed a private placement arranged in April 2008 of 6,115,000 units priced at $0.20 for gross proceeds of $1,223,000. 2,495,000 units consist of one flow-through common share and one share purchase warrant and 3,620,000 units consist of one non flow-through common share and one share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $0.20.

12. SUBSEQUENT EVENTS (Continued)

c) In August 2008, the Company closed the first tranche of a private placement arranged in May 2008 and amended in July 2008 of 4,650,000 units priced at $0.20 for gross proceeds of $930,000. 4,375,000 units consist of one flow-through common share and one share purchase warrant and 275,000 units consist of one non flow-through common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase on additional share for a period of two years at a price of $0.20 in the first year and at a price of $0.25 in the second year. Finders' fees of $68,000 are payable on this private placement.

d) In August 2008, the Company closed the second tranche of a private placement arranged in May 2008 and amended in July 2008 of 7,105,000 units priced at $0.20 for gross proceeds of $1,421,000. 7,080,000 units consist of one flow-through common share and one share purchase warrant and 25,000 units consist of one non flow-through common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase on additional share for a period of two years at a price of $0.20 in the first year and at a price of $0.25 in the second year. Finders' fees of $96,000 were paid on this private placement subsequent to year end.

Mineral Properties

e) San Luis Property, Mexico

In August 2008, the Company announced the entering into of an option to earn a 100% interest in the San Luis property which consists of a total of 143.0309 hectares in Mocorito, Sinaloa State, Mexico. Consideration for the property consists of US$13,000 in back taxes, US$1,200,000, and 2,000,000 shares to be paid/issued over a period of 48 months (250,000 shares issued subsequently). There is also a 3% NSR payable, and the Company has the right of refusal to purchase up to 2% of the NSR, if the optionee should receive an offer for its purchase.

f) San Dimas Property, Mexico

On August 8, 2008 the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Mexico. There is a 3% NSR payable, of which 2% may be purchased for US$2,000,000 (US$500,000 per 0.5% increments). In order to earn its 100% interest, the Company must pay $1,000,000 and issue 750,000 shares over a 48 month period as follows:

i) Pay US$30,000 (subsequently paid) and issue 250,000 shares upon regulatory approval.
ii) 6 months from regulatory approval, pay US$30,000.
iii) 12 months from regulatory approval, pay US$30,000 and issue 150,000 shares.
iv) 18 months from regulatory approval, pay US$60,000.
v) 24 months from regulatory approval, pay US$100,000 and issue 200,000 shares.
vi) 30 months from regulatory approval, pay US$150,000.
vii) 36 months from regulatory approval, pay US$200,000 and issue 150,000 shares.
viii) 42 months from regulatory approval, pay US$200,000.
ix) 48 months from regulatory approval, pay US$200,000.

12. SUBSEQUENT EVENTS (Continued)

g) Mina Grande Property, Mexico

On August 12, 2008 the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Mexico. There is a 3% NSR payable, of which 2% may be purchased for US$2,000,000 (US$500,000 per 0.5% increments). In order to earn its 100% interest, the Company must pay $748,500 and issue 600,000 shares over a 60 month period as follows:

i) Pay US$33,500 (subsequently paid) and issue 150,000 shares upon regulatory approval.
ii) 6 months from regulatory approval, pay US$15,000.
iii) 12 months from regulatory approval, pay US$25,000 and issue 150,000 shares.
iv) 18 months from regulatory approval, pay US$25,000.
v) 24 month from regulatory approval, pay US$50,000 and issue 150,000 shares.
vi) 30 months from regulatory approval, pay US$50,000.
vii) 36 months from regulatory approval, pay US$50,000 and issue 150,000 shares.
viii) 42 months from regulatory approval, pay US$100,000.
ix) 48 months from regulatory approval, pay US$200,000.
x) 60 months from regulatory approval, pay US$200,000.

13. RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated certain future income tax asset balances and the 2007 tax benefits recognized for flow-through renunciations which occurred in 2007.

The effect of the restatement on the financial statements is summarized below:

Balance Sheet 2007	**As previously reported**	**Adjustment**	**As restated**
Future income taxes payable	$ 311,000	$ 598,000	$ 909,000
Deficit	$ (1,600,093)	$ (598,001)	$(2,198,094)
Statement of Operations 2007	**As previously reported**	**Adjustment**	**As restated**
Future income taxes recovered	$ 1,172,000	$ (598,000)	$ 574,000
Net loss for the year	$ 792,127	$ 598,000	$ 1,390,127
Loss per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.03)

KLONDIKE SILVER CORP.

SCHEDULE OF MINERAL PROPERTY COSTS

YEAR ENDED MAY 31, 2008

	Slocan Group British Columbia	Idaho Creek Yukon	Connaught Property Yukon	Stump Property Yukon	Nordling Property Yukon	Santa Lucia Mexico	Starling Anomalies I Mexico	Starling Anomalies II Mexico	Mina Grande Mexico
Acquisition Costs									
Opening balance-acquisition	$ 687,682	$ 91,500	$ 138,500	$ 45,000	$ -	$ 114,248	$ 10,278	$ -	$ -
Staking costs	316	-	-	-	-	122,109	307,620	26,807	3,909
Option payments cash	-	35,000	-	-	8,500	51,270	-	-	15,824
Option payments shares	-	44,000	78,500	78,500	8,500	44,000	-	-	-
Administration	-	-	-	-	-	4,457	16,710	3,707	-
Property write off	-	(170,500)	-	-	-	-	-	-	-
	687,998	-	217,000	123,500	17,000	336,084	334,608	30,514	19,733
Exploration Costs									
Opening balance-exploration	1,083,890	480,717	74,520	1,190	-	237,051	95,980	-	-
Opening balance-advance	5,003	287,704	222,191	60,000	-	-	-	-	-
Exploration advances	(5,003)	(287,704)	(180,972)	240,739	-	-	-	-	-
Amortization	203,939	-	-	-	-	-	-	-	-
Consulting	8,118	800	13,200	2,500	-	24,051	(13,719)	277,037	-
Drilling	-	488,240	423,283	132,171	-	-	-	-	-
Equipment repairs	132,567	-	-	-	-	-	-	-	-
Fuel	73,987	-	-	-	-	-	-	-	-
Geological	158,731	-	-	-	-	27,804	-	138,345	2,772
Labour and benefits	654,493	-	-	-	-	-	-	-	-
Line cutting	13,738	-	-	-	-	-	-	-	-
Mapping and sampling	142,745	8,368	23,595	10,358	-	26,654	14,961	69,576	-
Site administration	38,645	53,594	98,820	16,068	-	56,333	129,021	72,623	16,664
Miscellaneous	2,276	-	217	-	-	(1,575)	1,434	-	-
Supplies and maintenance	381,802	-	-	-	-	-	-	-	-
Surveying	5,276	-	-	-	-	(220,555)	-	1,884	-
Utilities and communications	56,859	-	-	-	-	-	-	-	-
Property write off	-	(1,031,719)	-	-	-	-	-	-	-
	2,957,066	-	674,854	463,026	-	149,763	227,677	559,465	19,436
Balance, May 31, 2008	$ 3,645,064	$ -	$ 891,854	$ 586,526	$ 17,000	$ 485,847	$ 562,285	$ 589,979	$ 39,169

KLONDIKE SILVER CORP.

SCHEDULE OF MINERAL PROPERTY COSTS

YEAR ENDED MAY 31, 2008

	Alaska North Mexico	Alaska South Mexico	San Dimas Mexico	Haultain Property Ontario	Milner Property Ontario	Wigwam Property Ontario	Cleaver Ontario	Reeves Lake Ontario	South Nickel Ontario
Acquisition Costs									
Opening balance-acquisition	$ -	$ -	$ -	$ 101,210	$ 28,500	$ 33,500	$ -	$ -	
Staking costs	6,762	-	-	92,128	31,756	-	-	-	-
Option payments cash	7,912	7,912	-	20,000	10,000	15,000	75,000	10,000	-
Option payments shares	-	-	-	33,000	15,500	11,000	16,500	-	-
Administration	-	-	-	-	-	-	-	-	-
Property write off	-	-	-	-	-	-	-	-	-
	14,674	7,912	-	246,338	85,756	59,500	91,500	10,000	-
Exploration Costs									
Opening balance-exploration	-	-	-	33,174	1,195	1,494	-	-	-
Opening balance-advance	-	-	-	-	-	-	-	-	-
Exploration advances	25,000	-	-	-	238,547	-	-	-	-
Amortization	-	-	-	-	-	-	-	-	-
Consulting	-	-	-	1,430	8,850	-	-	-	950
Drilling	-	-	-	349,087	372,227	-	-	-	-
Equipment repairs	-	-	-	-	-	-	-	-	-
Fuel	-	-	-	-	-	-	-	-	-
Geological	70,813	11,757	2,772	97,335	45,442	-	-	-	1,403
Labour and benefits	-	-	-	-	-	-	-	-	-
Line cutting	-	-	-	-	-	-	-	-	-
Mapping and sampling	-	-	-	50,272	4,635	-	-	-	10,101
Site administration	10,150	539	539	8,243	21,000	-	-	-	-
Miscellaneous	-	-	-	918	-	-	-	-	-
Supplies and maintenance	-	-	-	-	-	-	-	-	-
Surveying	2,585	2,585	-	818,269	88,920	-	-	-	375,782
Utilities and communications	-	-	-	-	-	-	-	-	-
Property write off	-	-	-	-	-	-	-	-	-
	108,548	14,881	3,311	1,358,728	780,816	1,494	-	-	388,236
Balance, May 31, 2008	$ 123,222	$ 22,793	$ 3,311	$ 1,605,066	$ 866,572	$ 60,994	$ 91,500	$ 10,000	$ 388,236

KLONDIKE SILVER CORP.

SCHEDULE OF MINERAL PROPERTY COSTS

YEAR ENDED MAY 31, 2008

	Maralgo Property Ontario	Beemer Property Ontario	Lawson Property Ontario	Anvil Silver Ontario	South Bay Ontario	Walsh Silver Ontario	TOTAL
Acquisition Costs							
Opening balance-acquisition	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,250,418
Staking costs	-	45,276	3,960	21,952	-	-	662,595
Option payments cash	20,000	-	-	20,000	10,000	10,000	316,418
Option payments shares	27,750	-	-	27,000	18,000	18,000	420,250
Administration	-	-	-	-	-	-	24,874
Property write off	-	-	-	-	-	-	(170,500)
	47,750	45,276	3,960	68,952	28,000	28,000	2,504,055
Exploration Costs							
Opening balance-exploration	-	-	-	-	-	-	2,009,211
Opening balance-advance	-	-	-	-	-	-	574,898
Exploration advances	-	-	-	-	-	-	30,607
Amortization	-	-	-	-	-	-	203,939
Consulting	-	-	-	-	-	-	323,217
Drilling	-	-	-	-	-	-	1,765,008
Equipment repairs	-	-	-	-	-	-	132,567
Fuel	-	-	-	-	-	-	73,987
Geological	-	-	45,391	-	-	-	602,565
Labour and benefits	-	-	-	-	-	-	654,493
Line cutting	9,500	-	-	-	-	-	23,238
Mapping and sampling	2,500	1,200	9,887	1,200	-	-	376,052
Site administration	961	-	-	-	-	-	523,200
Miscellaneous	600	-	-	1,040	668	680	6,258
Supplies and maintenance	-	-	-	-	-	-	381,802
Surveying	-	65,642	-	168,805	-	-	1,309,193
Utilities and communications	-	-	-	-	-	-	56,859
Property write off	-	-	-	-	-	-	(1,031,719)
	13,561	66,842	55,278	171,045	668	680	8,015,375
Balance, May 31, 2008	$ 61,311	$ 112,118	$ 59,238	$ 239,997	$ 28,668	$ 28,680	$ 10,519,430

KLONDIKE SILVER CORP.

SCHEDULE OF MINERAL PROPERTY COSTS

YEAR ENDED MAY 31, 2007

	Slocan Group British Columbia	Haultain Property Ontario	Wigwam (Silverdollar) Ontario	Milner Property Ontario	Idaho Creek Yukon	Connaught Property Yukon	Magnum Property Yukon	Stump Property Yukon	Santa Lucia and Starling Anomalies Mexico	TOTAL
Acquisition Costs										
Opening balance	$ 607,542	$ 21,960	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 629,502
Acquisition advances	-	-	-	-	-	-	-	-	225,018	225,018
Staking costs	-	500	-	-	-	-	-	-	10,278	10,778
Option payments cash	61,000	30,000	15,000	10,000	-	50,000	-	-	28,248	194,248
Option payments shares	19,140	48,750	18,500	18,500	91,500	88,500	45,000	45,000	86,000	460,890
Property write off	-	-	-	-	-	-	(45,000)	-	-	(45,000)
	687,682	101,210	33,500	28,500	91,500	138,500	-	45,000	349,544	1,475,436
Exploration Costs										
Opening balance	60,396	-	-	-	-	-	-	-	-	60,396
Exploration advances	5,003	-	-	-	287,704	222,191	-	60,000	-	574,898
Amortization	73,679	-	-	-	-	-	-	-	-	73,679
Consulting	15,313	10,789	-	-	-	-	-	-	59,691	85,793
Drilling	12,529	-	-	-	57,565	-	88,733	-	-	158,827
Equipment repairs	72,198	-	-	-	-	-	-	-	-	72,198
Fuel	69,775	-	-	-	-	-	-	-	-	69,775
Geological	35,139	5,540	-	-	-	-	-	-	-	40,679
Labour and benefits	389,967	-	-	-	-	-	-	-	-	389,967
Line cutting	5,136	4,872	-	-	-	-	-	-	-	10,008
Mapping and sampling	137,146	6,908	-	-	-	-	-	-	42,657	186,711
Site administration	35,695	-	234	-	23,849	4,030	13,293	-	8,553	85,654
Miscellaneous	2,512	5,065	1,260	1,195	1,650	1,650	1,864	1,190	1,575	17,961
Supplies and maintenance	81,747	-	-	-	-	-	-	-	-	81,747
Surveying	82,688	-	-	-	397,653	68,840	179,957	-	220,555	949,693
Utilities and communications	9,970	-	-	-	-	-	-	-	-	9,970
Property write off	-	-	-	-	-	-	(283,847)	-	-	(283,847)
	1,088,893	33,174	1,494	1,195	768,421	296,711	-	61,190	333,031	2,584,109
Balance, May 31, 2007	$ 1,776,575	$ 134,384	$ 34,994	$ 29,695	$ 859,921	$ 435,211	-	$ 106,190	$ 682,575	$ 4,059,545