KLONDIKE SILVER CORP.

FINANCIAL STATEMENTS

MAY 31, 2007 AND 2006
(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, 2007 and 2006 and the statements of operations and deficit, 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, 2007 and 2006 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 27, 2007	Chartered Accountants

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KLONDIKE SILVER CORP.
BALANCE SHEETS
(Expressed in Canadian Dollars)

		MAY 31		
		2007		2006
ASSETS				
Current				
Cash and cash equivalents	**$**	**2,647,986**	$	1,899,490
GST receivable		**104,436**		34,708
Prepaid expenses		**2,500**		2,815
		2,754,922		1,937,013
Reclamation Bond (Note 4)		**100,000**		75,000
Mill And Equipment (Note 5)		**874,642**		472,322
Mineral Properties (Note 6 and Schedule)		**4,059,545**		689,898
	$	**7,789,109**	$	3,174,233
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**125,180**	$	5,275
Due to related parties		**-**		7,735
		125,180		13,010
Future Income Taxes		**311,000**		-
Asset Retirement Obligations (Note 7)		**41,366**		37,691
		477,546		50,701
SHAREHOLDERS' EQUITY				
Share Capital (Note 8)		**7,938,894**		3,644,279
Share Subscriptions Receivable		**-**		(371,400)
Contributed Surplus (Note 8)		**972,762**		658,619
Deficit		**(1,600,093)**		(807,966)
		7,311,563		3,123,532
	$	**7,789,109**	$	3,174,233

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 DEFICIT
(Expressed in Canadian Dollars)

	YEARS ENDED MAY 31	
	2007	2006
Expenses		
Accretion and amortization	**$ 25,496**	$ 25,814
Bank charges and interest	**1,866**	1,394
Consulting fees	**276,337**	11,000
Finance expense	**-**	40,000
Fuel	**34,521**	-
Investor relations, travel and promotion	**119,683**	-
Labour and benefits	**197,464**	97,017
Office administration	**360,024**	87,500
Office expenses	**21,020**	17,253
Part XII.6 tax	**95,778**	-
Professional fees	**29,506**	38,933
Regulatory and stock transfer fees	**68,196**	48,855
Stock based compensation	**317,000**	642,200
Supplies and maintenance	**96,873**	-
Utilities and communication	**8,653**	-
Loss Before Other Income (Expense)	**(1,652,417)**	(1,009,966)
Other Income (Expense)		
Interest earned	**(17,137)**	-
Mineral property abandoned and written off	**328,847**	-
	311,710	-
Loss Before Income Taxes	**(1,964,127)**	(1,009,966)
Future Income Taxes Recovered	**1,172,000**	202,000
Net Loss For The Year	**(792,127)**	(807,966)
Deficit, Beginning Of Year	**(807,966)**	-
Deficit, End Of Year	**$ (1,600,093)**	$ (807,966)
Loss Per Share, Basic and diluted	**$ (0.02)**	$ (0.06)
Weighted Average Number Of Shares Outstanding, Basic and diluted	**41,943,138**	14,264,799

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

KLONDIKE SILVER CORP.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	YEARS ENDED MAY 31 2007	2006
Cash Flows Provided By (Used In):		
Operating Activities		
Net loss for the year	**$ (792,127)**	$ (807,966)
Non-cash items:		
Accretion and amortization	**25,496**	25,814
Shares issued for loan expense	**-**	40,000
Stock based compensation	**317,000**	642,200
Mineral property abandoned and written off	**328,847**	-
Future income taxes	**(1,172,000)**	(202,000)
Changes in non-cash operating assets and liabilities:		
GST receivable	**(69,728)**	(34,708)
Prepaid expenses	**315**	(2,815)
Accounts payable and accrued liabilities	**119,905**	5,275
Due to related parties	**(7,735)**	7,735
	(1,250,027)	(326,465)
Investing Activities		
Equipment purchases	**(497,820)**	(204,341)
Mineral property exploration advance	**(799,916)**	-
Mineral property acquisition and exploration expenditures	**(2,364,009)**	(82,356)
Reclamation bonds	**(25,000)**	-
	(3,686,745)	(286,697)
Financing Activities		
Shares issued	**5,917,669**	2,606,841
Share issue costs	**(232,400)**	(94,189)
	5,685,269	2,512,652
Increase In Cash And Cash Equivalents	**748,496**	1,899,490
Cash And Cash Equivalents, Beginning Of Year	**1,899,490**	-
Cash and Equivalents, End Of Year	**$ 2,647,986**	$ 1,899,490

Supplemental Cash Flow Information (Note 11)

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2007 AND 2006

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 a public company related by virtue of one director in common to implement a statutory procedure known as a plan of arrangement (the "Plan of Arrangement") under Section 288 of the Business Corporations Act (British Columbia) (Note 3). The purpose of the Plan of Arrangement was to transfer certain mineral properties, tangible mining plant and equipment and related obligations to the Company in exchange for the issue of common shares, share purchase warrants and stock options. The shareholders of the public company approved the Plan of Arrangement on September 9, 2005 and the Company commenced trading on the April 17, 2006.

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

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) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Use of Estimates (Continued)

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. Management reviews significant estimates on a periodic basis and, when changes in estimates are necessary, makes adjustments prospectively.

c) 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.

d) 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.

e) 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 maturities of 90 days or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) 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.

g) 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 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 will be depleted over the estimated lives of the ore reserves.

h) Impairment of Long-Lived Assets

Long-lived assets include mill and equipment and mineral 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.

i) 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)

j) Share Capital

i) Non-monetary consideration - Shares, agent's warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on 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.

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 over the vesting period 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) 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.

l) 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.

m) Comparative Amounts

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

3. PLAN OF ARRANGEMENT AGREEMENT WITH KLONDIKE GOLD CORP.

On July 6, 2005, the Company entered into a Plan of Arrangement with a public company related by virtue of one director in common, Klondike Gold Corp. ("KG"), to restructure KG by transferring certain of KG's property, plant, equipment and related obligations in respect of these assets to the Company in exchange for the issuance of common shares, share purchase warrants and stock options on a five to one basis (5:1). The Plan of Arrangement also provides for the issuance of up to 246,000 common shares of the Company at various dates to November 14, 2006 or 90 days after commercial production. The issuance of such shares is also on a five to one basis and is contingent upon the issuance of KG common shares to maintain KG's interests in these mineral properties in good standing. The issuance of shares under this provision will be accounted for as additional consideration for the net assets acquired under the Plan of Arrangement when shares are issued. On September 9, 2005, the shareholders of KG approved the Plan of Arrangement at an extraordinary meeting. On October 7, 2005 the Plan of Arrangement was completed as follows:

Assets acquired at carrying values:	
Reclamation bond	$ 75,000
Mill	277,361
Equipment	14,175
Capitalized mineral property acquisition and exploration expenditures	607,542
	974,078
Liabilities assumed:	
Due to related party	75,000
Asset retirement obligations	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 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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2007 AND 2006

4. RECLAMATION BOND

The reclamation bond 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.

5. MILL AND EQUIPMENT

	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**

	MAY 31, 2006		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Mill	$ 277,361	$ -	$ 277,361
Equipment	225,341	30,380	194,961
	$ 502,702	$ 30,380	$ 472,322

No amortization has been taken on the Mill to date as it was not in use as of May 31, 2007 and 2006. Amortization on exploration use of equipment in the amount of $73,679 (2006 - $NIL) has been capitalized in mineral properties.

6. MINERAL PROPERTIES

	MAY 31, 2007		
	ACQUISITION COSTS AND OPTION PAYMENTS	**DEFERRED EXPLORATION COSTS AND ADVANCES**	**TOTAL**
Canadian Properties			
British Columbia (a)	**$ 687,682**	**$ 1,088,893**	**$ 1,776,875**
Ontario (b), (c), (d)	**163,210**	**35,863**	**199,073**
Yukon (e), (f), (g), (h)	**275,000**	**1,126,322**	**1,401,322**
Mexican Properties			
Santa Lucia (i)	**349,544**	**333,031**	**682,575**
	$ 1,475,436	**$ 2,584,109**	**$ 4,059,545**

	MAY 31, 2006		
	ACQUISITION COSTS AND OPTION PAYMENTS	DEFERRED EXPLORATION COSTS AND ADVANCES	TOTAL
Canadian Properties			
British Columbia (a)	$ 607,542	$ 60,396	$ 667,938
Ontario (b)	21,960	-	21,960
	$ 629,502	$ 60,396	$ 689,898

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. In order to earn its 100% interest, the Company is committed to the following:

i) Pay $30,000 upon regulatory approval (paid).

ii) Issue 75,000 common shares within five days from regulatory approval (issued).

6. MINERAL PROPERTIES (Continued)

b) Haultain Property, Ontario (Continued)

iii) Twelve months from regulatory approval, pay $20,000 (paid in June 2007), issue 75,000 common shares (issued as of June 21, 2007), and incur $50,000 in exploration expenditures.

iv) Twenty-four months from regulatory approval, pay $20,000, issue 75,000 common shares, and incur $100,000 in exploration expenditures.

v) Thirty-six months from regulatory approval, pay $20,000, issue 75,000 common shares, and incur $150,000 in exploration expenditures.

vi) Forty-eight months from regulatory approval, pay $20,000, issue 75,000 common shares, an incur $200,000 in exploration expenditures.

In addition, there is a 2% royalty interest, which the Company may at any time purchase 1% of the Royalty interest from the Optionor for $1,000,000.

c) Wigwam – Silverdollar Property, Ontario

On February 5, 2007 the Company entered into a property option agreement to earn a 100% interest in a prospective mineral property located in Haultain, Chown, and Lawson Townships, Ontario, known as the “Wigwam – Silverdollar Property”. There is a 2% net smelter return payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company committed to the following:

i) Pay $15,000 upon regulatory approval (paid).

ii) Pay $15,000, issue 50,000 common shares and incur US$25,000 in exploration expenditures within 12 months from the date of regulatory approval.

iii) Pay $15,000, issue 50,000 common shares and incur aggregate US$75,000 in exploration expenditures within 24 months from the date of regulatory approval.

iv) Pay $15,000, issue 50,000 common shares and incur aggregate US$150,000 in exploration expenditures within 36 months from the date of regulatory approval.

6. MINERAL PROPERTIES (Continued)

d) Milner Silver Property, Ontario

On February 5, 2007 the Company entered into a property option agreement to earn a 100% interest in a prospective mineral property located approximately 10 kilometers southwest of Gowganda, in Milner Township, Ontario, known as the “Milner Property”. There is a 2% net smelter return payable, of which half may be purchased for $1,000,000. In order to earn its 100% interest, the Company committed to the following:

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

ii) Pay $10,000, issue 50,000 common shares and incur US$25,000 in exploration expenditures within 12 months from the date of regulatory approval.

iii) Pay $10,000, issue 50,000 common shares and incur aggregate US$50,000 in exploration expenditures within 24 months from the date of regulatory approval.

iv) Pay $10,000, issue 50,000 common shares and incur aggregate US$75,000 in exploration expenditures within 36 months from the date of regulatory approval.

e) Idaho Creek Property, Yukon

On May 23, 2006 the Company entered into a property option agreement to earn a 50% interest in a prospective mineral property located in the Whitehorse Mining District in Yukon Territory known as the “Idaho Creek Property”. In order to earn its 50% interest, the Company committed to the following:

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

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

iii) On or before May 31, 2007 issue 100,000 common shares (issued as of June 21, 2007) and incur US$500,000 in exploration expenditures (incurred).

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

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

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

6. MINERAL PROPERTIES (Continued)

f) Connaught Property, Yukon

On May 31, 2006 the Company entered into a property option agreement to earn a 50% interest in a prospective mineral property located in the Dawson Mining District in Yukon Territory known as the "Connaught Property". In order to earn its 50% interest, the Company committed to the following:

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

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

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

iv) On or before May 31, 2007, issue 100,000 common shares (issued as of June 21, 2007) and incur US$300,000 in exploration expenditures.

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

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

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

g) Magnum Property, Yukon

On May 28, 2006 the Company entered into a property option agreement to earn a 50% interest in a prospective mineral property located in the Dawson Mining District in Yukon Territory known as the "Magnum Property". In order to earn its 50% interest, the Company is committed to the following:

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

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

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

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

As of May 31, 2007 the Company terminated the agreement, wrote off $328,847 of capitalized costs and as part of the termination, issued 100,000 common shares as of June 21, 2007.

6. MINERAL PROPERTIES (Continued)

h) Stump Property, Yukon

On May 28, 2006, the Company entered into a property option agreement to earn a 100% interest in a prospective mineral property located in the Watson Lake Mining District in Yukon Territory known as the "Stump Property". In order to earn its 100% interest, the Company committed to the following:

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

ii) On or before May 31, 2007, issue 100,000 common shares.

iii) On or before May 31, 2008 issue 100,000 common shares.

i) Santa Lucia Property, Mexico

On June 06, 2006, the Company entered into a property option agreement with Kootenay Gold Inc., a company with a common director to earn a 50% interest in a prospective mineral property located in the southern Sonora State. In order to earn its 50% interest, the Company committed to the following:

i) Upon execution of the Agreement pay US$25,000 (paid).

ii) Issuing an aggregate of 500,000 common shares over two years (200,000 issued).

iii) Complete at least an aggregate of US$1,000,000 in exploration expenditures over two years.

j) Starling Anomalies, Mexico

On June 21, 2006, the Company entered into a letter agreement with Kootenay Gold Inc., a company with a common director to earn up to a 50% interest in prospective mineral properties located in Mexico. In order to earn its 50% interest, the Company committed to the following:

i) Advance US$250,000 ($212,996 paid) for property acquisition costs.

ii) Issue 500,000 common shares over two years for each property optioned.

iii) Acquire 100,000 shares of Kootenay Gold as a finder's fee.

iv) Incur US$1,000,000 on each property optioned within three years.

7. 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 $41,366 as at May 31, 2007, 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.

Arrangement (Note 3)	$ 35,432
Accretion expense	2,259
Balance, May 31, 2006	37,691
Accretion expense	5,934
Balance, May 31, 2007	**$ 41,366**

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.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value

8. **SHARE CAPITAL** (Continued)

b) Issued

The Company has issued shares of its capital stock as follows:

	NUMBER OF SHARES	AMOUNT	CONTRIBUTED SURPLUS
Balance, May 31, 2005	1	$ 1	$ -
Arrangement (Note 3)	18,305,752	844,946	18,700
Warrants exercised for cash	700,000	105,000	-
Cancel inception share	(1)	(1)	-
Loan consideration	200,000	40,000	-
Reclamation bond	375,000	75,000	-
Options exercised for cash	245,000	35,900	-
Fair value of stock options exercised	-	2,810	(2,810)
For cash - private placements	10,861,793	2,579,859	-
Share issuance costs, cash	-	(94,189)	-
Warrants exercised for cash	1,300,017	257,482	-
Re-pricing of stock options	-	(529)	529
Stock based compensation	-	-	642,200
Tax benefits renounced on flow-through shares	-	(202,000)	-
Balance, May 31, 2006	31,987,561	$ 3,644,279	$ 658,619
For property acquisitions	1,041,000	460,890	-
For cash - private placements			
Non flow-through shares	3,970,000	1,595,000	-
Flow-through shares	7,675,000	3,451,500	-
Exercise of warrants	2,326,666	447,468	
Exercise of options	261,500	52,300	
Contributed surplus	-	2,857	(2,857)
Share issuance costs, cash	-	(232,400)	
Stock based compensation	-	-	317,000
Tax benefits renounced on flow-through shares	-	(1,483,000)	-
Balance, May 31, 2007	**47,261,727**	**$ 7,938,894**	**$ 972,762**

8. SHARE CAPITAL (Continued)

b) Issued (Continued)

Year ended May 31, 2007:

i) In May 2007, the Company issued 175,000 common shares for the exercise of warrants at $0.20 per share for gross proceeds of $35,000 and 186,500 common shares for the exercise of options at $0.20 per share for gross proceeds of $37,300.

ii) 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.

iii) In February 2007, the Company issued 1,425,000 common shares for the exercise of warrants at $0.18 per share for gross proceeds of $258,281.

iv) 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.

v) In December 2006, the Company issued 100,000 common shares for the exercise of warrants at $0.20 per share for gross proceeds of $20,000 and 4,000 common shares for the exercise of options at $0.20 per share for gross proceeds of $800.

vi) 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.

vii) In September 2006, the Company issued 626,666 common shares for the exercise of warrants at $0.21 per share for gross proceeds of $134,187 and 71,000 common shares for the exercise of options at $0.20 per share for gross proceeds of $14,200.

viii) The Company incurred $232,400 share issuance costs pursuant to the private placements closed in the year.

8. SHARE CAPITAL (Continued)

b) Issued (Continued)

Year ended May 31, 2006:

i) In May 2006, the Company issued 660,017 common shares for the exercise of warrants at prices ranging from $0.125 to $0.2625 per share for gross proceeds of $137,483.

ii) On May 15, 2006, the Company closed its private placement of 4,075,000 units at $0.30 per unit for gross proceeds of $1,222,500. Each unit consists of one common share and one whole share purchase warrant, exercisable at a price of $0.40 per share for a period of two years.

iii) Throughout the fourth quarter of the fiscal year 2006, the Company issued 245,000 common shares for the exercise of options at prices ranging from $0.125 to $0.20 for gross proceeds of $35,900.

iv) On February 6, 2006 the Company issued 375,000 common shares at $0.20 per share for the transfer of the reclamation bond related to the Company's Silvana mine and Sandon mill for at a value of $75,000.

v) On December 30, 2005 the Company closed its private placement of 6,786,793 units at $0.20 per unit for gross proceeds of $1,357,359. Each unit consists of one common share and one whole share purchase warrant, exercisable at a price of $0.20 for a period of two years.

vi) On December 9, 2005 the Company issued 200,000 common shares at $0.20 per share as a bonus in respect of an initial $100,000 working capital loan from KG for a value of $40,000.

vii) In December 2005, the Company issued 640,000 common shares for the exercise of warrants at $0.1875 per share for gross proceeds of $120,000.

viii) On October 27, 2005 the Company issued 700,000 common shares for the exercise of warrants at $0.15 per common share for gross proceeds of $105,000.

ix) The Company re-priced certain stock options related to the Plan of Arrangement and as a result, posted an adjustment to share capital for $529.

x) The Company incurred $94,189 share issuance costs pursuant to the private placements closed in the year.

8. SHARE CAPITAL (Continued)

c) Share Purchase Warrants

The following summarizes the warrants outstanding as at May 31, 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 at May 31, 2007	22,947,443	

As at May 31, 2007 the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
795,000	$ 0.125	July 22, 2007
1,450,000	$ 0.200	January 10, 2008
4,607,443	$ 0.200	February 6, 2008
375,000	$ 0.200	February 6, 2008
4,075,000	$ 0.400	May 12, 2008
7,760,000	$ 0.500	August 3, 2008
3,815,000	$ 0.600	December 20, 2008
70,000	$ 0.600	February 15, 2009
22,947,443		

As at May 31, 2007 the weighted average remaining contractual life of the share purchase warrants is 1.02 years and the weighted average exercise price is $0.40.

d) Stock Options

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.

8. SHARE CAPITAL (Continued)

d) Stock Options (Continued)

The following summarizes the stock options outstanding as of May 31, 2007:

	Number of options	Exercise price
Outstanding and exercisable at May 31, 2006	3,057,500	
Options exercised	261,500	$ 0.20
Options cancelled	4,000	$ 0.20
Options granted	933,000	$ 0.51
Outstanding at May 31, 2007	3,725,000	

As of May 31, 2007 there were 3,725,000 options outstanding as follows:

EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
$ 0.20	538,500	1.81
$ 0.51	933,000	4.10
$ 0.53	2,253,500	3.96
	3,725,000	3.69

i) The allocation of the purchase price to the stock options granted as additional consideration for the net assets acquired from KG (Note 3) was 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.

ii) The fair value of the stock based compensation options granted May 15, 2006 was estimated on the date of grant in the amount of $642,200 using the Black-Scholes valuation model with the following assumptions: i) Exercise price per share of $0.53; ii) Expected KG share price volatility – 79%; iii) Risk free interest rate – 4.15%; iv) Expected life – 3 years; and v) No dividend yield.

iii) 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 – 79.69%; iii) Risk free interest rate – 4.35%; iv) Expected life – 3 years; and v) No dividend yield.

8. SHARE CAPITAL (Continued)

e) Escrowed Shares and Warrants

On regulatory approval of the Plan of Arrangement (Note 3), 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.

9. RELATED PARTY TRANSACTIONS

The following related party transactions are in addition to the related party transactions disclosed the plan of arrangement, mineral properties and share capital notes.

a) Pursuant to a management agreement contract with Hastings Management Corp. ("Hastings"), a private company controlled by a director, the Company was charged $360,024 (2006 - $87,500) during the year ended May 31, 2007. 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 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, 2007, $Nil (2006 - $7,735) was owed to Hastings.

b) Consulting fees in the aggregate of $160,000 (2006 - $7,500) were paid to various directors throughout the period.

c) The Company paid during the year $9,691 (2006 - $Nil) to Bear Creek Equipment Limited. Hastings owns part of this company.

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

10. INCOME TAXES

Provision for Income Taxes

The Company's provision for income taxes for the year ended May 31, 2006 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	
	2007	2006
Statutory combined federal and provincial rate	**34%**	34%
Computed recovery of income taxes at statutory rates	**$ (670,000)**	$ (345,000)
Non-deductible expenses	**108,000**	219,000
Temporary differences	**99,000**	2,000
Tax benefits not recognized (recognized)	**(709,000)**	(24,000)
	$ (1,172,000)	$ (202,000)

Future Income Tax Assets and Liabilities

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

	MAY 31	
	2007	2006
Non-capital loss carried forward	**$ 586,000**	$ 123,000
Exploration resource deductions net of renounced amounts	**(1,023,000)**	(40,000)
Capital assets	**43,000**	10,000
Share issue cost	**83,000**	26,000
	(311,000)	119,000
Valuation allowance	**-**	(119,000)
	$ (311,000)	$ -

The Company has an available tax losses of approximately $1,718,000 which begin to expire in 2026, and may be offset against future Canadian taxable income. The Company has exploration resource deductions carried forward of approximately $1,763,000 for the reduction of future income taxes and can be carried forward until there is a change of control. As at May 31, 2007, the Company was committed to spend approximately $3,072,000 on qualifying Canadian exploration expenses.

11. SUPPLEMENTAL CASH FLOW INFORMATION

a) Non-Cash Investing and Financing Activities:

Year ended May 31, 2007:

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

Year ended May 31, 2006:

i) 18,305,752 common shares issued to KG shareholders at $0.046 per share for net assets transferred from KG in the amount of $844,946 per Note 3.
ii) 1,319,000 stock options issued to KG shareholders to purchase 1,319,000 common shares at a weighted average price of $0.191 per share at a value of $18,700 per Note 3.
iii) 375,000 common shares issued to KG at $0.20 per share for the transfer of the reclamation bond in the amount of $75,000.

b) Interest and Income Taxes Paid in Cash:

Interest in the amount of $1,233 was paid in the year ended May 31, 2006 and no income taxes were paid.

12. SEGMENTED INFORMATION

The Company's mineral properties acquisition and exploration activities were in Canda 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, 2007 and 2006 were incurred in Canada. The Company's total assets were segmented geographically as follows:

	MAY 31	
	2006	2005
Canada	**$ 7,106,534**	$ 3,174,233
Mexico	**682,575**	-
	$ 7,789,109	$ 3,174,233

13. SUBSEQUENT EVENTS

a) 795,000 common shares were issued on the exercise of warrants at $0.125 per share for gross proceeds of $99,375.

b) The Company acquired an option to earn a 100% interest in the Maralgo property, located in Milner Township, Gowganda Silver mining camp, Ontario. Consideration for the Property consists of $50,000 and 225,000 shares over a period of 24 months. There is a 2% net smelter return payable half of which may be purchased for $1,000,000.

c) The Company acquired an option to earn a 100% interest in the Anvil Silver property, located in the Van Nostrand Township, Larder Lake mining division, Ontario. Consideration for the Property consists of $80,000 and 300,000 shares over a period of 36 months. There is a 2% net smelter return payable half of which may be purchased for $1,000,000.

d) The Company acquired an option to earn a 100% interest in the South Bay property, located in Milner Township, Larder Lake mining division, Ontario approximately six kilometres southwest of Gowganda. Consideration for the Property consists of $85,000 and 100,000 shares over a period of 24 months. There is a 2% net smelter return payable half of which may be purchased for $1,000,000.

e) The Company acquired an option to earn a 100% interest in the Walsh Silver property, located in Nicol Township, Larder Lake mining division, Ontario approximately three kilometres east of Gowganda. Consideration for the Property consists of $85,000 and 100,000 shares over a period of 24 months. There is a 2% net smelter return payable half of which may be purchased for $1,000,000.

f) In September 2007, the Company completed a private placement for $1,400,000 through the sale of 3,500,000 units. The financing consisted of non flow-through units priced at $0.40 per unit. Each of the units consisted of one non flow-through common share and one non flow-through 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.

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 down	-	-	-	-	-	-	(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	-	-	-	97,653	68,840	179,957	-	220,555	949,693
Utilities and communications	9,970	-	-	-	-	-	-	-	-	9,970
Property write down	-	-	-	-	-	-	(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	$ 1,776,875	$ 134,384	$ 34,994	$ 29,695	$ 859,921	$ 435,211	$	$ 106,190	$ 682,575	$ 4,059,545

KLONDIKE SILVER CORP.

SCHEDULE OF MINERAL PROPERTY COSTS

YEAR ENDED MAY 31, 2006

	Slocan Group British Columbia	Haultain Property Ontario	TOTAL
Acquisition Costs			
Opening balance	$ 607,542	$ -	$ 607,542
Staking costs	-	21,960	21,960
Option payments cash	-	-	-
Option payments shares	-	-	-
	607,542	21,960	629,502
Exploration Costs			
Opening balance	-	-	-
Consulting	7,310	-	7,310
Drilling	3,517	-	3,517
Geological	2,451	-	2,451
Line cutting	-	-	-
Mapping and sampling	2,673	-	2,673
Site administration	7,735	-	7,735
Miscellaneous	635	-	635
Surveying	36,075	-	36,075
	60,396	-	60,396
Balance, May 31, 2006	$ 667,938	$ 21,960	$ 689,898