CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2011 AND 2010

(Expressed in Canadian Dollars)

MORGAN & COMPANY
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Klondike Silver Corp.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Klondike Silver Corp, which comprise the consolidated balance sheets as at May 31, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Klondike Silver Corp. as at May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada — "Morgan & Company"

September 26, 2011 — Chartered Accountants

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KLONDIKE SILVER CORP.

CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

	MAY 31	
	2011	2010
ASSETS		
Current		
Cash	**$ 131,637**	$ -
Accounts receivable	**50,561**	94,051
Prepaid expenses	**2,023**	8,134
	184,221	102,185
Deposit	**9,900**	-
Reclamation Bond (Note 3)	**119,000**	119,000
Mill And Equipment (Note 4)	**735,811**	941,754
Mineral Properties (Note 5 and Schedule)	**13,631,808**	13,852,066
	$ 14,680,740	$ 15,015,005
LIABILITIES		
Current		
Bank indebtedness	**$ -**	$ 51,983
Accounts payable and accrued liabilities	**182,277**	267,417
Loan payable (Note 6)	**301,450**	-
Due to related parties (Note 11)	**346,421**	274,988
	830,148	594,388
Future Income Taxes (Note 12)	**-**	16,000
Asset Retirement Obligations (Note 7)	**60,015**	54,683
	890,163	665,071
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	**22,620,805**	21,700,275
Contributed Surplus	**2,495,962**	2,299,462
Deficit	**(11,326,190)**	(9,649,803)
	13,790,577	14,349,934
	$ 14,680,740	$ 15,015,005

Approved on behalf of the Board of Directors:

"Richard Hughes"	"Alan Campbell"
Director	Director

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

KLONDIKE SILVER CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	YEARS ENDED MAY 31	
	2011	2010
Expenses		
Accretion and amortization	**$ 13,275**	$ 18,236
Administration (Note 11)	**86,000**	750,000
Consulting fees (Note 11)	**91,500**	336,984
Investor relations, travel and promotion	**15,591**	140,146
Labour and benefits	**112,414**	69,570
Loan consideration, interest and bank charges (Note 13)	**183,683**	3,625
Office (Note 11)	**71,344**	56,280
Part XII.6 tax	**4,268**	13,613
Professional fees	**95,121**	58,402
Regulatory and stock transfer fees	**90,952**	119,136
Stock based compensation	**-**	439,000
Supplies and maintenance	**-**	13,099
Utilities and communication	**1,335**	1,486
Loss Before Other Income (Expenses) And Income Taxes	**(765,483)**	(2,019,577)
Other Income (Expenses)		
Foreign exchange gain (loss)	**2,836**	(8,790)
Interest earned	**225**	309
Mineral property write-down	**(1,182,689)**	(1,072,063)
Loss on disposal of fixed assets	**(11,056)**	-
Recovery of prior period expenses	**49,110**	-
	(1,141,574)	(1,080,544)
Loss Before Income Taxes	**(1,907,057)**	(3,100,121)
Future Income Taxes Recovered	**230,670**	1,099,000
Net Loss And Comprehensive Loss For The Year	**$ (1,676,387)**	$ (2,001,121)
Loss Per Share – Basic and diluted	**$ (0.13)**	$ (0.25)
Weighted Average Number Of Shares Outstanding, Basic and diluted	**10,154,243**	8,101,456

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

KLONDIKE SILVER CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED MAY 31, 2011 and 2010
(Expressed in Canadian Dollars)

	SHARE CAPITAL		SHARE	CONTRIBUTED		
	NUMBER	AMOUNT	SUBSCRIPTIONS	SURPLUS	DEFICIT	TOTAL
Balance, May 31, 2009	5,635,587	$ 18,210,675	$ 6,000	$ 1,717,268	$ (7,648,682)	$ 12,285,261
Issue of shares for mineral properties	35,750	51,000	-	-	-	51,000
Issue of shares for cash, private placements						
Flow-through shares	2,212,415	2,783,003	-	-	-	2,783,003
Non flow-through shares	1,430,140	1,802,683	(6,000)	-	-	1,796,683
Share issuance costs	-	(200,226)	-	-	-	(200,226)
Share issuance costs – re-priced warrants	-	(143,194)	-	143,194	-	-
Stock based compensation	-	-	-	439,000	-	439,000
Share subscriptions received	-	159,960	-	-	-	159,960
Tax benefits renounced on flow-through shares	-	(963,626)	-	-	-	(963,626)
Net loss for the year	-	-	-	-	(2,001,121)	(2,001,121)
Balance, May 31, 2010	9,313,892	21,700,275	-	2,299,462	(9,649,803)	14,349,934
Issue of shares for mineral properties	5,000	4,000	-	-	-	4,000
Issue of shares for cash, private placements						
Flow-through shares	675,000	675,000	-	-	-	675,000
Non flow-through shares	1,335,000	543,000	-	-	-	543,000
Issue of shares for loan agreement	253,000	150,500	-	-	-	150,500
Share issuance costs	-	(40,800)	-	-	-	(40,800)
Share issuance costs – re-priced warrants	-	(196,500)	-	196,500	-	-
Tax benefits renounced on flow-through shares	-	(214,670)	-	-	-	(214,670)
Net loss for the year	-	-	-	-	(1,676,387)	(1,676,387)
Balance, May 31, 2011	**11,581,892**	**$ 22,620,805**	**$ -**	**$ 2,495,962**	**$ (11,326,190)**	**$ 13,790,577**

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

KLONDIKE SILVER CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	YEARS ENDED MAY 31 2011	2010
Cash Flows Provided By (Used In):		
Operating Activities		
Net loss for the year	**$ (1,676,387)**	$ (2,001,121)
Non-cash items:		
Accretion and amortization	**13,275**	18,236
Loss on disposal of fixed assets	**11,056**	-
Mineral properties write-down	**1,182,689**	1,072,063
Stock based compensation	**-**	439,000
Accrued loan interest	**27,984**	-
Loan consideration	**150,500**	-
Future income taxes recovered	**(230,670)**	(1,099,000)
	(521,553)	(1,570,822)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	**43,490**	10,932
Prepaid expenses	**6,111**	93,940
Accounts payable and accrued liabilities	**(54,188)**	110,865
Due to related parties	**(8,967)**	(363,938)
	(535,107)	(1,263,475)
Investing Activities		
Reclamation bonds	**-**	(10,500)
Equipment sales proceeds (purchases)	**11,550**	(298,952)
Security deposit	**(9,900)**	-
Mineral property acquisition and exploration expenditures	**(813,989)**	(3,379,792)
Due from related parties	**-**	40,342
	(812,339)	(3,648,902)
Financing Activities		
Shares issued	**1,218,000**	4,579,686
Share issuance costs	**(40,800)**	(200,226)
Share subscriptions received	**-**	59,960
Due from related parties	**80,400**	139,500
Loan proceeds	**400,000**	-
Loan repayments	**(126,534)**	-
	1,531,066	4,678,920
Net Increase (Decrease) In Cash	**183,620**	(233,457)
(Bank Indebtedness) Cash, Beginning of Year	**(51,983)**	181,474
Cash (Bank Indebtedness), End of Year	**$ 131,637**	$ (51,983)

Supplemental Cash Flow Information (Note 14)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 amounts shown as mineral properties represent costs of acquisition net of recoveries to date and deferred exploration costs, less amounts written off. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

The Company incurred a net loss of $(1,676,387) for the year ended May 31, 2011 (2010 - $(2,001,121), and had a working capital deficiency of $(645,927) (2010 - $(492,203)), and a deficit of $(11,326,190) (2010 - $(9,649,803)). On May 31, 2011, the Company did not have sufficient cash to meet minimum general and administration expenses for the year ending May 31, 2012. The operations of the Company have primarily been funded by the issuance of common shares. Continued operations of the Company are dependent on the Company's ability to complete equity financing and the continuing financial support of shareholders in order to continue exploration of its mineral property interests. Management's 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters cannot be predicted at this time. Accordingly, these financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those reported in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiary Slocan Silver S.A. de C.V. which was incorporated in Mexico in April 2008.

b) Going Concern

Management is required to assess the Company's ability to continue as a going concern. When there are material uncertainties related to events or conditions that may cast doubt on the Company's ability to continue as a going concern, those uncertainties are disclosed. In assessing the appropriateness of the going concern assumption, management is required to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date.

c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of costs and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, mineral property carrying values, flow-through obligations to investors, determination of fair values for stock based compensation, and the valuation of future income assets. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from these estimates.

d) Measurement Uncertainty

Management's capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources, estimated mineral prices, and the procurement of all necessary regulatory permits and approvals. These estimates and assumptions could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral property costs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Financial Instruments

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading, accounts receivable as loans and receivables, accounts payable and accrued liabilities, loan payable and due to related parties as other financial liabilities. The carrying values of the Company's financial instruments were a reasonable approximation of fair value.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data

f) Financial Instrument Risks

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Credit risk and liquidity risk on amounts due to creditors and amounts due to related parties were significant to the Company's balance sheet. The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities. The Company's ability to raise share capital is indirectly related to changing metal prices and the price of silver, lead and zinc in particular. To mitigate this market risk, management of the Company actively pursues a diversification strategy with property holdings focusing on base and precious metals.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Comprehensive Income

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements.

Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available-for-sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translation of self-sustaining foreign operations financial statements. As there were no other comprehensive income items, comprehensive income for the period was equal to the net income for the period.

h) Foreign Currency Translation

Foreign currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method as follows:

i) Monetary items are translated at the rates prevailing at the balance sheet date;
ii) Non-monetary items are translated at historical rates;
iii) Expenses are translated at the average rates in effect during applicable accounting periods, except amortization, which is translated at historical rates;
iv) Gains and losses on foreign currency transactions are recorded in the consolidated statements of operations.

i) Cash

Cash includes cash on hand and demand deposits. Cash equivalents comprise 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 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.

j) Mill and Equipment

The mill comprises a used ore processing plant, used buildings and related equipment stated at cost. Amortization on mill and equipment is provided on the straight line method over estimated useful lives ranging from three to eight years. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Mineral Properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are deferred and capitalized until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If the mineral properties are put into production, the deferred costs will be amortized over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and capitalized exploration costs are written off.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

l) Impairment of Long-lived Assets

Long-lived assets include mineral properties, the Sandon Mill and related equipment. The Company periodically evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount.

A mining enterprise in the exploration 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 exploration 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 for impairment write-down. The conditions include unfavorable exploration results and significant unfavorable 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 are written down to the estimated recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Asset Retirement Obligations

The Company applies CICA Handbook accounting standard 3110 “Asset Retirement Obligations”. Under 3110, legal obligations associated with the future retirement of tangible long-lived assets are recorded as liabilities. The liabilities are recorded in the period management is able to establish a reasonable estimate of a fair value of the retirement obligation. The liabilities are calculated using the net present value of the estimated cash flows required to settle the obligation and are subject to accretion over time for changes in the fair value of the estimated obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depletion and amortization of the underlying assets. The liabilities are subject to accretion over time for changes in the fair value of the obligations. Management estimates may be subject to material adjustment as a result of changes in regulations, or changes in the means and extent of environmental remediation.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company’s policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, will be charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries.

n) Share Capital

i) Non-monetary consideration - Warrants and stock options 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 for mineral properties 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Share Capital (Continued)

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. The future income tax liability is offset by available future income tax assets as a recovery of future income taxes.

iii) Stock based compensation - The Company measures the cost of the service received for all stock options issued to employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date and expensed as services are rendered. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as 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.

o) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Loss Per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares issued and outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal as outstanding stock options and warrants were all anti-dilutive.

q) Comparative Figures

Certain comparative figures have been reclassified in order to conform to the current period's financial statement presentation.

r) Future Accounting Pronouncements Not Yet Adopted

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that fiscal 2011 is the changeover date for non-calendar year end publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of June 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2010. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. RECLAMATION BONDS

The reclamation bonds are recorded at fair value and consist of deposits made by the Company for indemnification of site restoration costs for the Silvana Mine, Sandon Mill, and exploration sites located in BC. Reclamation bonds in the amount of $100,000 were held in trust for the Company by a company controlled by a common director.

(Expressed in Canadian Dollars)

4. MILL AND EQUIPMENT

	2011		
	COST	**ACCUMULATED AMORTIZATION**	**NET BOOK VALUE**
Mill	**$ 277,361**	**$ 69,340**	**$ 208,021**
Equipment	**1,264,611**	**799,594**	**465,017**
Land	**62,773**	**-**	**62,773**
	$ 1,604,745	**$ 868,934**	**$ 735,811**

	2010		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Mill	$ 277,361	$ 34,670	$ 242,691
Equipment	1,293,202	656,912	636,290
Land	62,773	-	62,773
	$ 1,633,336	$ 691,582	$ 941,754

Amortization on exploration use of equipment in the amount of $710,590 (2010 - $535,196) has been capitalized in mineral properties.

In December 2010, the Company sold a vehicle to a company controlled by a former officer and director of the Company. The transaction was recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Expressed in Canadian Dollars)

5. MINERAL PROPERTIES

	2011		
	ACQUISITION COSTS AND OPTION PAYMENTS	**DEFERRED EXPLORATION COSTS AND ADVANCES**	**TOTAL**
Canadian Properties			
British Columbia	**$ 577,764**	**$ 8,301,887**	**$ 8,879,651**
Ontario	**408,719**	**2,260,646**	**2,669,365**
Yukon	**399,440**	**1,683,352**	**2,082,792**
	$ 1,385,923	**$ 12,245,885**	**$ 13,631,808**

	2010		
	ACQUISITION COSTS AND OPTION PAYMENTS	DEFERRED EXPLORATION COSTS AND ADVANCES	TOTAL
Canadian Properties			
British Columbia	$ 697,764	$ 7,289,366	$ 7,987,130
Ontario	675,430	2,515,376	3,190,806
Yukon	398,219	1,621,951	2,020,170
Mexican Properties			
Mexico	109,430	544,530	653,960
	$ 1,880,843	$ 11,971,223	$ 13,852,066

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

British Columbia Properties

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.

On June 8, 2010, the Company entered into an option agreement with Gold Jubilee Capital Corp. (TSX.V) (“Jubilee”) pursuant to which Jubilee can acquire a 51% right, title and interest in the Hewitt-Van Roi property for $320,000, a total of 300,000 common shares of Jubilee, and incurring at least $1,500,000 in exploration expenses. All payments are due in staged payments through October 28, 2013. The Company remains the operator of the property.

5. MINERAL PROPERTIES (Continued)

Ontario Properties

b) Haultain Property, Ontario

On May 5, 2006, and as amended on May 13, 2009, 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 half may be purchased for $1,000,000. In order to earn its 100% interest, the Company must:

i) Pay $30,000 (paid) and issue 3,750 shares (issued) upon regulatory approval.
ii) On or before June 5, 2007, pay $20,000 (paid), and issue 3,750 shares (issued).
iii) On or before June 5, 2008, pay $20,000 (paid), and issue 3,750 shares (issued).
iv) On or before June 5, 2009, pay $10,000 (paid), and issue 3,750 shares (issued).
v) On or before June 5, 2010, pay $15,000, and issue 3,750 shares.

c) Milner Silver Property, Ontario

On February 5, 2007, and as amended May 13, 2009, 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 2,500 shares (issued) upon regulatory approval.
ii) On or before February 22, 1008, pay $10,000 (paid), and issue 2,500 shares (issued).
iii) On or before May 30, 2009, pay $7,000 (paid), and issue 2,500 shares (issued).
iv) On or before February 22, 2010, pay $7,000 (paid), and issue 2,500 shares (issued).

d) Maralgo Property, Ontario

On June 15, 2007, and as amended on May 13, 2009, 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 3,750 shares (issued) upon regulatory approval.
ii) On or before July 6, 2008, pay $10,000 (paid) and issue 3,750 shares (issued).
iii) On or before July 6, 2009, pay $7,000 (paid) and issue 3,750 shares (issued).
iv) On or before July 6, 2010, pay $7,000.

Due to poor exploration results, this property option agreement was terminated.

5. MINERAL PROPERTIES (Continued)

Ontario Properties (Continued)

e) South Bay, Ontario

On July 27, 2007, and as amended December 16, 2008, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Milner Township, Ontario. There was a 2% NSR payable, of which half may have been purchased for $1,000,000. In order to earn its 100% interest, the Company must have incurred a minimum of $2,400 in exploration each year, paid $47,500 ($30,000 paid), and issued 5,000 shares (issued):

Due to poor exploration results, this property option agreement was terminated.

f) Cleaver Central Property, Ontario

On November 3, 2009, the Company entered into a property option agreement to earn a 100% interest in a mineral property, located in Cleaver Townships, Ontario. There was a 3% NSR payable, of which one third may have been purchased for $1,000,000. In order to earn its 100% interest, the Company must have done the following:

i) Pay $10,000 (paid) and issue 5,000 shares (issued) upon regulatory approval.
ii) Pay $25,000 and issue 5,000 shares on or before the date which is 12 months from the date of regulatory approval.
iii) Pay $35,000 and issue 5,000 shares on or before the date which is 24 months from the date of regulatory approval.
iv) Pay $35,000 and issue 5,000 shares on or before the date which is 36 months from the date of regulatory approval.

Due to poor exploration results, this property option agreement was terminated.

g) Reeves Lake Property, Ontario

On September 21, 2007, and as amended December 5, 2008, 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) On or before December 31, 2008, pay $7,500 in cash (paid).
iii) On or before November 1, 2009, pay $12,500 in cash (paid).

Due to poor exploration results, this property option agreement was terminated.

5. MINERAL PROPERTIES (Continued)

Ontario Properties (Continued)

h) Clagor Property, Ontario

In July 9 2008, the Company entered into a property option agreement to earn a 100% interest in the Clagor mineral property located in 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 2,000 shares (issued) upon regulatory approval.
ii) 12 months from regulatory approval, pay $10,000 (paid) and issue 2,000 shares (issued).

Due to poor exploration results, this property option agreement was terminated.

Due to poor exploration results, the Lawson and Beemer properties were terminated.

Yukon Properties

i) 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. The Company has earned its 50% interest.

j) 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. The Company paid on NSR $17,077 in February 2010. The Company had earned its 100% interest in the Stump Property.

k) Hart Property, Yukon

This property lies five kilometers east of the Connaught Joint Venture claims and was acquired by staking in the year ended May 31, 2011.

5. MINERAL PROPERTIES (Continued)

Mexican Properties

l) Starling Anomalies and Espiritu, Mexico

On June 21, 2006, the Company entered into a letter agreement (Phase I) with Kootenay Gold Inc. ("Kootenay"), a company related by a common director, to acquire by staking certain properties in Mexico for consideration of US$250,000 (paid). Upon completion of the staking the Company had 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 25,000 shares per property in three tranches over two years.
ii) Incur US$1,000,000 in exploration expenditures per property 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's participation in optioning further properties under identical terms as the June 21, 2006 agreement.

In the year ended May 31, 2009, the Company elected to proceed with the exploration of six Espiritu properties and abandon its interests in the Starling Anomolies. The Company issued 90,000 shares on the Espiritu properties. Before May 31, 2009, the Company also abandoned five Espiritu properties due to poor exploration results.

During the year ended May 31, 2011, the Company issued an additional 5,000 shares (2010 – 5,000) with respect to the remaining Espiritu property. However, as of May 31, 2011 this property has been written off as no work is planned.

6. LOAN PAYABLE

On September 22, 2010, the Company received a $400,000 loan from a private company owned by a significant shareholder of the Company. The loan also provides for a general security agreement over all of the assets of the Company. The loan bears interest at 10% per annum, compounded monthly with an expiry date of March 22, 2011. On March 22, 2011, the expiry date of the loan was extended to September 22, 2011. As additional consideration, the Company issued 40,000 common shares on September 22, 2010 and 213,000 common shares on May 3, 2011 ("bonus shares") to the lender at a deemed price of $1.00 and $0.30 per bonus share. During the year ended May 31, 2011, the Company accrued $27,984 interest payable on the loan and repaid $126,534 in cash.

The loan and all outstanding interest was repaid subsequent to year end.

(Expressed in Canadian Dollars)

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 $60,015 as at May 31, 2011, 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 Sandon 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, 2009	$ 49,825
Accretion expense	4,858
Balance, May 31, 2010	54,683
Accretion expense	5,332
Balance, May 31, 2011	**$ 60,015**

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

In March 2011**,** the Company consolidated its share capital on a 20 to 1 basis. Shareholder approval of the proposed consolidation was obtained at the Company's Annual and Special Meeting on March 14, 2011. The record date for the consolidation was set at March 29, 2011, after regulatory approval. The Company now has a total of 11,581,892 common shares issued and outstanding. Numbers of shares presented in these financial statements have been adjusted for this 20:1 share consolidation. All share references, numbers of options, numbers of warrants, and per share amounts included in these financial statements have been restated to reflect the consolidation.

a) Authorized - Unlimited number of common shares without par value

b) Issued:

Year ended May 31, 2011:

i) In May 2011, the Company closed a private placement for 1,200,000 non flow through units at a price of $0.34 per unit for total proceeds of $408,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for five years at a price of $0.45 per share.

8. SHARE CAPITAL (Continued)

b) Issued (Continued)

ii) In July 2010, the Company closed a private placement for 675,000 flow-through units and 135,000 non-flow-through units at a price of $1.00 per unit for total proceeds of $810,000. Each flow-through unit consisted of one flow-through common share and one non-flow-through share purchase warrant entitling the holder to purchase one additional common share for two years at a price of $2.00 per share. Each non-flow-through unit consisted of one non-flow-through common share and one non-flow-through share purchase warrant entitling the holder to purchase one additional common share for five years at a price of $2.00 per share in years one and two, $3.00 per share in year three, and $4.00 per share in years four and five. The Company paid commission of $40,800 on this private placement.

Year ended May 31, 2010:

i) On February 1, 2010, the Company closed a private placement for 757,648 flow-through and 314,125 non flow-through units priced at $1.30 for gross proceeds of $1,393,305. Each flow through unit consisted of one flow through common share and one non flow through share purchase warrant entitling the holder to purchase one additional share for two years at the price of $2.00 per share. Each non flow through unit consisted of one non flow through common share and one non flow through share purchase warrant entitling the holder to purchase one additional share for five years at a price of $2.00 per share in years one and two, $3.00 per share in year three, and $4.00 per share in years four and five.

ii) On December 10, 2009, the Company closed a private placement for 99,600 flow-through units at a price of $1.60 and 551,015 non flow-through units priced at $1.30 for gross proceeds of $875,680. Each unit consisted of either one flow-through or non flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share at a price of $2.00 in the first two years and $3.00 for the next three years.

iii) On November 17, 2009, the Company closed a private placement for 125,000 flow-through units priced at $1.30 for gross proceeds of $162,500. Each unit consisted of one flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share at a price of $2.00 in the first two years and $3.00 for the next three years.

iv) On July 14, 2009, the Company closed a private placement for 475,000 flow-through units priced at $1.20 for gross proceeds of $570,000. Each unit consisted of one flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $2.00.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

b) Issued (Continued)

Year ended May 31, 2010 (Continued)

v) On July 13, 2009, the Company closed a private placement for 110,500 flow-through and 420,000 non flow-through units priced at $1.20 for gross proceeds of $636,600. Each unit consisted of either one flow-through or non flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $2.00.

vi) On June 18, 2009, the Company closed a private placement for 94,650 flow-through and 10,000 non flow-through units priced at $1.20 for gross proceeds of $125,580. Each unit consisted of either one flow-through or non flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $2.00.

vii) On June 11 and 25, 2009, the Company closed private placements for 550,017 flow-through and 135,000 non flow-through units priced at $1.20 for gross proceeds of $822,020. Each unit consisted of either one flow-through or non flow-through common share and one non flow-through share purchase warrant entitling the holder to purchase one additional share for a period of two years at a price of $2.00.

viii) The Company incurred $200,226 share issuance costs pursuant to the private placements closed in the year ended May 31, 2010.

c) Share Purchase Warrants

The following is a summary of the changes in warrants:

	NUMBER OF WARRANTS
Outstanding and exercisable at May 31, 2009	2,708,824
Warrants granted	3,642,555
Warrants expired	(554,667)
Outstanding and exercisable at May 31, 2010	5,796,712
Warrants granted	2,010,000
Warrants expired	(909,625)
Outstanding and exercisable at May 31, 2011	6,897,087

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

c) Share Purchase Warrants (Continued)

As at May 31, 2011, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
447,367	$ 0.40	May 21, 2014
416,667	$ 2.00	*June 10, 2011
104,650	$ 2.00	*June 17, 2011
268,350	$ 2.00	*June 24, 2011
530,500	$ 2.00	*July 12, 2011
475,000	$ 2.00	*July 13, 2011
631,923	$ 2.00	December 21, 2011
125,725	$ 2.00	January 31, 2012
500,000	$ 2.00	June 3, 2012
15,000	$ 2.00	June 9, 2012
160,000	$ 2.00	July 14, 2012
258,915	$ 2.00	December 3, 2012
305,750	$ 2.00/3.00/4.00	July 6, 2011/2012/2013
232,500	$ 2.00/3.00/4.00	July 22, 2011/2012/2013
125,000	$ 2.00/3.00	November 10, 2011/2012/2013/2014
650,615	$ 2.00/3.00	December 9, 2011//2012/2013/2014
75,000	$ 2.00/3.00/4.00	December 21, 2011/2012/2014
239,125	$ 2.00/3.00/4.00	January 31, 2012/2013/2014/2015
10,000	$ 2.00/3.00/4.00	June 9, 2012/2013/2015
125,000	$ 2.00/3.00/4.00	July 14, 2012/2013/2015
1,200,000	$ 0.45	May 23, 2016
6,897,087		

***** Subsequent to the year end, these warrants were re-priced to $0.40 and extended to 2014. Also, a clause was added to the terms of these warrants in order to force their expiry in 30 days, should the Company's shares trade at or above $0.51 for ten consecutive days.

As at May 31, 2011, the weighted average remaining contractual life of the share purchase warrants was 1.88 years (2010 – 1.12) and the weighted average exercise price was $1.60 (2010 - $2.38).

8. SHARE CAPITAL (Continued)

c) Share Purchase Warrants (Continued)

On May 21, 2011, the Company extended the term and reduced the exercise price of 2,242,534 warrants which were set to expire in May 21, 2011. The warrants were extended to May 21, 2014. 447,367 warrants originally were retroactively re-priced and extended. The fair value of stock-based compensation was estimated at the date of re-pricing using a Black-Scholes pricing model in the amount of $53,000 with the following weighted average assumptions: i) exercise price per warrant of $0.40; ii) expected share price volatility of 94.98%; (iii) risk free interest rate of 1.93%; (iv) expected life of 3; and (v) no dividend yield.

On July 22, 2010, the Company extended the term and reduced the exercise price of 232,500 warrants which were set to expire on July 22, 2010. The expiration date was revised to July 22, 2013, and the price was reduced as follows: from $4.00 to $2.00, up to and including July 22, 2011; $3.00 up to and including July 22, 2012; and $4.00 up to and including July 22, 2013. The fair value of the stock based compensation warrants was estimated at the date of re-pricing using a Black-Scholes pricing model in the amount of $62,000 with the following weighted average assumptions: i) exercise price per warrant of $2.00; ii) expected share price volatility of 83.11%; (iii) risk free interest rate of 1.93%; (iv) expected life of 3; and (v) no dividend yield.

On July 9, 2010, the Company extended the term and reduced the exercise price of 305,750 warrants which were set to expire on July 9, 2010. The expiration date was revised to July 9, 2013, and the price was reduced as follows: from $4.00 to $2.00, up to and including July 9, 2011; $3.00 up to and including July 9, 2012; and $4.00 up to and including July 9, 2013. The fair value of the stock based compensation warrants was estimated at the date of re-pricing using a Black-Scholes pricing model in the amount of $81,500 with the following weighted average assumptions: i) exercise price per warrant of $2.00; ii) expected share price volatility of 83.63%; (iii) risk free interest rate of 1.93%; (iv) expected life of 3; and (v) no dividend yield.

On November 25, 2009, the Company repriced and extended $0.50 warrants that were due to expire on December 3, 2009 to $0.10 and December 3, 2012 respectively. The fair value of the repricing and extension was estimated at $143,194 on using a Black-Scholes pricing model with the following weighted average assumptions: i) exercise price per warrant of $0.10; ii) expected share price volatility of 81.21%; (iii) risk free interest rate of 1.62%; (iv) expected life of 3 years; and (v) no dividend yield.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

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. Subject to Exchange policies, the Board of Directors may, in its sole discretion, determine the time during which an option shall vest and the method of vesting, or that no vesting restriction shall exist. 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:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at May 31, 2009	457,375	$2.00
Options granted	441,750	$2.00
Options cancelled/expired	(131,300)	$2.00
Outstanding and exercisable at May 31, 2010	767,825	$2.00
Options cancelled/expired	(420,175)	$2.00
Outstanding at May 31, 2011	347,650	$2.00

As at May 31, 2011, the weighted average remaining contractual life of the options was 4.01 years (2010 – 4.72) and the weighted average exercise price was $2.00 (2010 - $2.00).

As of May 31, 2011, the following options were outstanding and exercisable as follows:

NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE	EXERCISE PRICE	EXPIRY DATES
21,400	21,400	$ 2.00	July 7, 2011
63,500	63,500	$ 2.00	January 31, 2013
61,250	61,250	$ 2.00	February 26, 2014
201,500	201,500	$ 2.00	December 13, 2016
347,650	347,650		

8. SHARE CAPITAL (Continued)

d) Stock Options (Continued)

On December 14, 2009, the Company granted 165,000 incentive stock options to directors and officers of the Company, and 276,750 to employees and consultants for a period of seven years. All of the options granted vested immediately. The fair value of the stock based compensation options was estimated on the date of grant in the amount of $439,000, inclusive of $162,360 with respect to options granted to directors and officers, using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of $2.00; ii) expected share price volatility of 93.74% iii) risk free interest rate of 2.56%; iv) expected life of 7 years; and v) no dividend yield.

9. CAPITAL MANAGEMENT

The Company manages its common shares, stock options and warrants as capital (see Note 8). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in a Canadian chartered bank account.

In the past, the Company has been successful in raising funds through the issuance of share capital. It is uncertain, however, how successful the Company will be in raising more funds in the current difficult market conditions. The Company currently has insufficient funds for its operational activities and will require equity financing, joint ventures or other forms of financing in order to fund continued exploration activities, flow-through expenditure obligations, and administrative overhead costs for the coming year.

There were no changes to the Company's approach to capital management during the year.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these consolidated financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at May 31, 2011, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	LEVEL	HELD FOR TRADING	LOANS AND RECEIVABLES/ AMORTIZED COST	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets					
Cash (a)	1	$ 131,637	$ -	$ 131,637	$ 131,637
Accounts receivable (a)	1	-	37,475	37,475	37,475
		$ 131,637	$ 37,475	$ 169,112	$ 169,112
Financial liabilities					
Accounts payable and accrued liabilities (b)	3	$ -	$ 182,277	$ 182,277	$ 182,277
Loan repayable (b)	3	-	301,450	301,450	301,450
Due to related parties (b)	3	-	346,421	346,421	346,421
		$ -	$ 830,148	$ 830,148	$ 830,148

(a) Fair value approximates the carrying amounts due to the short-term nature.
(b) Recorded at fair value. Direct and indirect observed market prices were used to determine fair value.

There have been no transfers between Levels 1, 2 and 3 for the years ended May 31, 2011 and 2010.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop certain of these estimates. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The methods and assumptions used to estimate the fair value of financial instruments are described below:

The Company is exposed to potential loss from various risks including commodity price risk, interest rate risk, currency risk, credit risk and liquidity risk. Based on the Company's operations the liquidity risk, and commodity price risk are considered the most significant.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

a) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of base and precious metals including silver, zinc and lead, and the outlook for these metals. The Company does not have any hedging or other derivative contracts respecting its operations.

Market prices for metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company monitors commodity price risk and adjusts its financing and exploration activities when required to mitigate this risk.

b) Liquidity Risk

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short term obligations during the year.

During the past year the Company has been able to maintain its liquidity position through private placements. However, the difficult market conditions make it uncertain whether the Company can continue to raise adequate funds to meet its financial obligations.

11. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Related party balances consisted of the following:

	2011	2010
Due to directors and companies with directors in common	**$ 346,421**	$ 274,988

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 mill and equipment, mineral properties and share capital notes, the Company had the following related party transactions during the years ended May 31, 2011 and 2010:

11. 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 $86,000 (2010 - $750,000) during the year and $47,500 (2010 - $Nil) was recovered for prior period expenses. The same company also charged $96,250 (2010 - $32,616) for equipment rental, and $7,000 (2010 - $12,000) for core storage facilities. The rental and storage charges were capitalized to mineral properties. The contract is for a one-year renewable term and can be terminated upon 30 days notice by either party. 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; 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, 2011, a total of $269,297 (2010 - $217,189) was owed to Hastings.

b) Consulting fees in the aggregate of $103,650 (2010 - $287,500) were paid to directors and officers, former directors and public companies with common directors during the year including $22,650 capitalized to mineral properties.

c) Office administration fees in aggregate at $24,500 (2010 - $Nil) were paid to a private company controlled by a former officer.

d) At May 31, 2011, the Company owed $77,124 (2010 - $57,799) to directors, former directors and public companies with common directors.

(Expressed in Canadian Dollars)

12. INCOME TAXES

a) Provision for Income Taxes

The Company's provision for income taxes for the years ended May 31, 2011 and 2010 differs from the amounts computed by applying the statutory income tax rates to the loss before income taxes as a result of the following:

	2011	2010
Statutory combined federal and provincial rate	**28%**	29%
Computed recovery of income taxes at statutory rates	**$ (528,000)**	$ (911,000)
Non-deductible expenses	**43,000**	129,000
Effect of change in tax rate	**-**	-
Tax benefits recognized	**254,330**	(317,000)
	$ (230,670)	$ (1,099,000)

b) Future Income Tax Assets and Liabilities

The estimated tax effect of the significant components within the Company's future tax liability was as follows:

	2011	2010
Mineral properties	**$ (2,002,000)**	$ (2,057,000)
Non-capital losses carried forward	**1,754,000**	1,766,000
Cumulative eligible capital deductions	**3,000**	3,000
Capital assets	**221,000**	157,000
Share issue costs	**77,000**	115,000
Valuation allowance	**(53,000)**	
Net future income tax liabilities	**$ -**	$ (16,000)

The Company's Canadian non-capital losses begin to expire in 2026 and Mexican non–capital losses begin to expire in 2019. The amounts carried forward for income tax purposes were approximately as follows:

	2011	2010
Canada	**$ 7,014,000**	$ 7,066,000
Mexico	**11,000**	11,000
	$ 7,025,000	$ 7,077,000

12. INCOME TAXES (Continued)

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 this year, the Company renounced $756,413 in flow-through share financings. As of May 31, 2011 a balance of $488,708 remained to be spent on exploration expenditures on the Company's Canadian exploration properties by December 31, 2011.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Investing and Financing Activities:

Year ended May 31, 2011:

5,000 common shares, valued at $4,000, were issued for property acquisition option payment.

253,000 bonus shares, valued at $150,500 were issued as an additional consideration for the loan.

Year ended May 31, 2010:

35,750 common shares, valued at $51,000, were issued for property acquisition option payments.

14. SUBSEQUENT EVENTS

a) In July 2011, The Company closed a private placement and issued 1,000,000 units for gross proceeds of $250,000. Each unit was priced at $0.25 and consisted of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share for a period of four years at a price of $0.30 per share.

14. SUBSEQUENT EVENTS (Continued)

b) In September 2011, the Company closed a private placement for gross proceeds of $408,550 and issued 1,634,200 units at $0.25 per unit consisting of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share for a period of four years at a price of $0.30 per share.

c) The Company entered into an agreement to purchase the Bakus property located east of New Denver, BC. Consideration consisted of $30,000 ($15,000 Paid), the transfer of certain staked and crown granted mineral tenures and the issuance of 130,434 common shares.

KLONDIKE SILVER CORP.
SCHEDULE OF MINERAL PROPERTY COSTS
YEARS ENDED MAY 31, 2011 AND 2010
(Expressed in Canadian Dollars)

	Slocan and Sandon BC	Connaught Property Yukon	Stump Property Yukon	Hart Property Yukon	Espiritu Property Mexico	Haultain Property Ontario	Milner Property Ontario
Acquisition Costs							
Opening balance-acquisition	$ 697,764	$ 245,497	$ 140,577	$ 12,145	$ 109,430	$ 302,213	$ 106,506
Staking costs	-	921	-	300	-	-	-
Option payments cash	-	-	-	-	-	-	-
Option payments shares	-	-	-	-	4,000	-	-
Administration	-	-	-	-	-	-	-
Option income	(120,000)	-	-	-	-	-	-
Property write off	-	-	-	-	(113,430)	-	-
	577,764	246,418	140,577	12,445	-	302,213	106,506
Exploration Costs							
Opening balance-exploration	7,276,866	1,289,154	328,511	4,286	544,530	1,542,111	716,372
Opening balance-advance	12,500						
Exploration advance	(12,500)						
Amortization	175,394	-	-	-	-	-	-
Consulting	18,450	688	-	275	-	-	-
Drilling	73,280	(24,300)	-	-	-	-	-
Equipment repairs and rentals	215,770	940	-	85	-	-	-
Fuel	66,782	-	-	-	-	-	-
Geological	101,828	32,447	1,144	13,051	-	1,413	750
Labour and benefits	447,485	-	-	-	-	-	-
Line cutting	30,479	-	-	-	-	-	-
Mapping and sampling	74,643	22,240	-	10,111	-	-	-
Site administration	2,681	4,102	-	618	-	-	-
Supplies and maintenance	121,778	-	-	-	-	-	-
Surveying	24,952	-	-	-	-	-	-
Utilities and communications	52,947	-	-	-	-	-	-
Incidental revenue	(381,447)	-	-	-	-	-	-
Property write off	-	-	-	-	(544,530)	-	-
	8,301,888	1,325,271	329,655	28,426	-	1,543,524	717,122
Balance, May 31, 2011	$ 8,879,652	$ 1,571,689	$ 470,232	$ 40,871	$ -	$ 1,845,737	$ 823,628

KLONDIKE SILVER CORP.
SCHEDULE OF MINERAL PROPERTY COSTS
YEARS ENDED MAY 31, 2011 AND 2010
(Expressed in Canadian Dollars)

(Continued)

	Lawson Property Ontario	South Bay Ontario	Clagor Property Ontario	Maralgo Property Ontario	Cleaver Central Ontario	Reeves Lake Ontario	Beemer Property Ontario	Total
Acquisition Costs								
Opening balance-acquisition	$ 3,960	$ 54,250	$ 26,600	$ 87,625	$ 17,500	$ 30,000	$ 46,776	$ 1,880,843
Staking costs	-	-	-	-	-	-	-	1,221
Option payments cash	-	-	-	-	-	-	-	-
Option payments shares	-	-	-	-	-	-	-	4,000
Administration	-	-	-	-	-	-	-	-
Option income	-	-	-	-	-	-	-	(120,000)
Property write off	(3,960)	(54,250)	(26,600)	(87,625)	(17,500)	(30,000)	(46,776)	(380,141)
	-	-	-	-	-	-	-	1,385,923
Exploration Costs								
Opening balance	158,225	668	12,539	13,561	-	-	71,901	11,958,724
Amortization	-	-	-	-	-	-	-	175,394
Consulting	-	-	-	-	-	-	-	19,413
Drilling	-	-	-	-	-	-	-	48,980
Equipment repairs	-	-	-	-	-	-	-	216,795
Fuel	-	-	-	-	-	-	-	66,782
Geological	1,125	-	-	-	-	-	-	151,758
Labour and benefits	-	-	-	-	-	-	-	447,485
Line cutting	-	-	-	-	-	-	-	30,479
Mapping and sampling	-	-	-	-	-	-	-	107,174
Site administration	-	-	-	-	-	-	-	7,220
Supplies and maintenance	-	-	-	-	-	-	-	121,778
Surveying	-	-	-	-	-	-	-	24,952
Utilities and communications	-	-	-	-	-	-	-	52,947
Incidental revenue	-	-	-	-	-	-	-	(381,447)
Property write off	(159,350)	(668)	(12,539)	(13,561)	-	-	(71,901)	(802,549)
	-	-	-	-	-	-	-	12,245,885
Balance, May 31, 2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,631,808

KLONDIKE SILVER CORP.
SCHEDULE OF MINERAL PROPERTY COSTS
YEARS ENDED MAY 31, 2011 AND 2010
(Expressed in Canadian Dollars)

(Continued)

	Slocan and Sandon BC	Kelly Property BC	Connaught Property Yukon	Stump Property Yukon	Nordling Property Yukon	Hart Property Yukon	Espiritu Property Mexico	Reeves Lake Ontario
Acquisition Costs								
Opening balance-acquisition	$ 689,573	$ -	$ 242,000	$ 123,500	$ 27,500	$ -	$ 53,347	$ 17,500
Staking costs	441	-	3,497	-	-	12,145	50,583	-
Option payments cash	5,000	5,000	-	-	-	-	-	12,500
Option payments shares	2,750	-	-	-	-	-	5,500	-
Net smelter royalties	-	-	-	17,077	-	-	-	-
Property write off	-	(5,000)	-	-	(27,500)	-	-	-
	697,764	-	245,497	140,577	-	12,145	109,430	30,000
Exploration Costs								
Opening balance-exploration	4,932,716	-	1,204,438	301,894	-	-	15,333	-
Opening balance-advance	-	-	-	25,248	-	-	-	-
Exploration advances	12,500	-	-	(25,248)	-	-	-	-
Amortization	166,287	-	-	-	-	-	-	-
Consulting	70,907	-	7,140	-	-	-	-	-
Drilling	99,030	-	32,820	-	-	-	287,533	-
Equipment repairs and rentals	172,514	-	-	-	-	-	-	-
Fuel	161,061	-	-	-	-	-	-	-
Geological	243,291	-	33,633	18,771	-	4,098	103,489	-
Labour and benefits	1,014,291	-	-	-	-	-	-	-
Line cutting	86,409	-	-	-	-	-	-	-
Mapping and sampling	96,161	1,449	8,238	7,409	-	188	62,552	-
Site administration	2,058	-	2,885	430	-	-	75,623	-
Miscellaneous	94,174	-	-	-	-	-	-	-
Supplies and maintenance	349,478	-	-	7	-	-	-	-
Surveying	6,775	-	-	-	-	-	-	-
Utilities and communications	70,384	-	-	-	-	-	-	-
Incidental revenue	(288,670)	-	-	-	-	-	-	-
Property write off	-	(1,449)	-	-	-	-	-	-
	7,289,366	-	1,289,154	328,511	-	4,286	544,530	-
Balance, May 31, 2010	$ 7,987,130	$ -	$ 1,534,651	$ 469,088	$ -	$ 16,431	$ 653,960	$ 30,000

KLONDIKE SILVER CORP.
SCHEDULE OF MINERAL PROPERTY COSTS
YEARS ENDED MAY 31, 2011 AND 2010
(Expressed in Canadian Dollars)

(Continued)

	Milner Property Ontario	Beemer Property Ontario	Lawson Property Ontario	Anvil Silver Ontario	South Bay Ontario	Wigwam Property Ontario	Walsh Silver Ontario	Clagor Property Ontario
Acquisition Costs								
Opening balance-acquisition	$ 89,256	$ 46,776	$ 3,960	$ 84,202	$ 43,000	$ 63,000	$ 41,000	$ 13,600
Staking costs	-	-	-	-	-	-	-	-
Option payments cash	14,000	-	-	10,000	9,500	8,000	8,750	10,000
Option payments shares	3,250	-	-	5,250	1,750	2,250	1,750	3,000
Administration	-	-	-	-	-	-	-	-
Property write off	-	-	-	(99,452)	-	(73,250)	(51,500)	-
	106,506	46,776	3,960	-	54,250	-	-	26,600
Exploration Costs								
Opening balance-exploration	679,651	67,849	154,454	213,004	668	33,950	868	-
Opening balance-advance	-	-	-	-	-	-	-	-
Exploration advances	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-
Consulting	-	-	-	-	-	-	-	-
Drilling	-	-	-	-	-	-	-	-
Equipment repairs	-	-	-	-	-	-	-	1,800
Fuel	-	-	-	-	-	-	-	-
Geological	721	3,146	3,771	700	-	250	-	1,475
Labour and benefits	-	-	-	-	-	-	-	-
Line cutting	-	-	-	-	-	-	-	7,588
Mapping and sampling	-	-	-	-	-	-	-	-
Site administration	36,000	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Supplies and maintenance	-	906	-	-	-	-	-	1,676
Surveying	-	-	-	-	-	-	-	-
Utilities and communications	-	-	-	-	-	-	-	-
Incidental revenue	-	-	-	-	-	-	-	-
Property write off	-	-	-	(213,704)	-	(34,200)	(868)	-
	716,372	71,901	158,225	-	668	-	-	12,539
Balance, May 31, 2010	$ 822,878	$ 118,677	$ 162,185	$ -	$ 54,918	$ -	$ -	$ 39,139

KLONDIKE SILVER CORP.
SCHEDULE OF MINERAL PROPERTY COSTS
YEARS ENDED MAY 31, 2011 AND 2010
(Expressed in Canadian Dollars)

(Continued)

	Haultain Property Ontario	Maralgo Property Ontario	Nickel South Group Ontario	Total
Acquisition Costs				
Opening balance-acquisition	$ 285,088	$ 73,500	$ 113,500	$ 2,010,302
Staking costs	-	-	38,710	105,376
Option payments cash	10,000	7,000	17,500	117,250
Option payments shares	7,125	7,125	11,250	51,000
Administration	-	-	-	17,077
Property write off	-	-	(163,460)	(420,162)
	302,213	87,625	17,500	1,880,843
Exploration Costs				
Opening balance-exploration	1,527,586	13,561	390,605	9,536,577
Opening balance-advance	-	-	-	25,248
Exploration advances	-	-	-	(12,748)
Amortization	-	-	-	166,287
Consulting	-	-	-	78,047
Drilling	-	-	-	419,383
Equipment repairs	-	-	-	174,314
Fuel	-	-	-	161,061
Geological	2,525	-	11,074	426,944
Labour and benefits	-	-	-	1,014,291
Line cutting	-	-	-	93,997
Mapping and sampling	-	-	-	175,997
Site administration	12,000	-	-	128,996
Miscellaneous	-	-	-	94,174
Supplies and maintenance	-	-	-	352,067
Surveying	-	-	-	6,775
Utilities and communications	-	-	-	70,384
Incidental revenue	-	-	-	(288,670)
Property write off	-	-	(401,679)	(651,901)
	1,542,111	13,561	-	11,971,223
Balance, May 31, 2010	$ 1,844,324	$ 101,186	$ 17,500	$ 13,852,066