

**Form 51-102F1**  
**Management Discussion and Analysis**  
**For**  
**Klondike Silver Corp.**

**For the Year Ended May 31, 2007**

The following management discussion and analysis has been prepared as of September 28, 2007. The selected financial information set out below and certain comments which follow are based on and derived from the audited financial statements of Klondike Silver Corp. (the "Company" or "Klondike Silver") for the year ended May 31, 2007 and should be read in conjunction with them.

**Forward Looking Information**

Certain statements contained in the following Management's Discussion and Analysis constitute forward looking statements. Such forward looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward looking statements while considering the risks set forth below.

**General**

Klondike Silver is Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "KS".

The Company commenced trading on the TSX Venture Exchange on April 17, 2006 under the symbol of "KS". The Company was formed as a result of plan of arrangement whereby certain mineral property interests and equipment of Klondike Gold Corp. ("KG") were transferred to the Company in exchange for 18,305,752 shares of Klondike Silver which were then distributed to the shareholders of KG pro rata.

Klondike Silver is a junior exploration company with no revenues from mineral producing operations. Its operations are focused in the Slocan area in southeastern British Columbia.

**Overall Performance**

The Company incurred acquisition costs of \$845,934 during the year. In addition, the Company has spent or advanced \$2,523,713 for exploration during the year with \$1,028,497 being spent on the Company's Slocan group of properties mostly on mapping, sampling and surveying. The other significant exploration work focused on the Idaho Creek Property in the Yukon where the Company incurred a total of \$768,421 on exploration mostly on a geophysical survey.

**Risks and Uncertainties**

The Company's business is highly uncertain and risky by its very nature. Success is totally dependent on the knowledge and expertise of its management and employees and their ability to identify and advance attractive exploration projects and targets from grass roots to more advanced stages. The Company is fortunate to have attracted highly qualified individuals with superior track records through a number of exploration successes.

Regulatory standards continue to change making the review process longer, more complex and therefore more expensive. Even if an ore body is discovered, there is no assurance that it will

ever reach production. While it is impossible to eliminate all of the risks associated with exploration and mining, it is management's intention to manage its affairs, to the extent possible, to ensure that the Company's assets are protected and that its efforts will result in increased shareholder value.

### **Slocan Silver Camp**

The Slocan Silver Camp is centered around the town of Sandon which is located 53 kilometres north of the Nelson in southeastern, British Columbia. Sandon is 14.5 kilometres east of New Denver along an all-weather gravel road that branches off paved Highway 31A.

Claims in the Slocan camp cover an area of approximately 100 square kilometers and include most of the historical past-producing silver-lead-zinc prospects of the camp, including the Silvana Mine and the fully operational 100-tonne per day mill situated at Sandon. The claims include legacy claims, crown-granted claims and recently acquired or converted mineral cells. Not all of this ground is held by Klondike Silver and not all claims are contiguous. The Stenson group is located approximately 7 km northeast of Sandon and a claim group 7 km to the southeast covers a number of isolated silver-lead vein occurrences. As well, claims covering the past producing Hewitt and Van Roi deposits, are not contiguous with those of the main Slocan camp. Geophysical and geochemical work was conducted on portions of the Stenson claims this past summer. Mining and related permits are current, as are environmental permits to operate a tailings pond.

Exploration and development of properties that constitute the Slocan Camp date back to their initial discovery in 1895. Recent exploration by KG began in late 2004; this summary outlines exploration conducted until the end of August, 2006.

Work in 2004 concentrated on the Wonderful property, located a few hundred meters south of the Klondike Silver mill. This area was chosen for initial assessment as results from earlier VLF-EM geophysical survey and soil geochemical surveys (1981), were encouraging. Over recent months the mill has been rehabbed and made fully operational. Two of the old, caved portals, the McLanders (No. 2) and No. 4, were located and opened by backhoe excavation.

Five trenches were excavated in 2004, mainly along VLF-EM trends that were readily accessible from original mine exploration roads.

Trenching at the McLanders portal exposed a galena-rich vein through a strike length of approximately 25 meters. The vein is open at both ends, exposed at the head of a small adit at its south end and buried in overburden at its north end. Seven samples were taken as shown in the accompanying table. Samples 04-1 to 04-4 were chip samples, 20 and 40 cm wide, across the width of the vein from just north of the portal to its northern exposed limit.

<b>Sample</b>	<b>Pb %</b>	<b>Zn %</b>	<b>Ag gm/t</b>	<b>Ag oz/ton</b>	<b>sample type</b>
Won 04-1	20.01	2.46	416	13	40 cm chip
Won 04-2	45.22	3.74	1911	59.7	40 cm chip
Won 04-3	28.30	1.94	1635	51.1	20 cm chip
Won 04-4	3.65	1.47	170	5.3	20 cm chip
Won 04-5	67.59	3.95	2885	90.2	grab sample
Won 04-6	70.89	2.17	4348	135.8	grab sample
Won 04-7	4.60	1.21	173	5.4	grab sample

Table: Analyses of chip and grab samples from McLanders vein, Wonderful property.

The high silver (to 4384 g/tonne or 135.8 oz/ton) and lead contents, as well as the high silver/lead ratios were encouraging and led to the decision to drill test the down dip and strike extension of the McLanders vein.

Trench 04-1 discovered a new galena-rich subcrop vein of unknown width and extent. This exposure is located approximately 300 meters NNE of the McLanders vein. This discovery comprises mainly galena mineralization that consists of angular, broken subcrop boulders, up to 0.5 meters in dimension, that display a fine grained and sheared texture. A prominent clay fault gouge, associated with the vein mineralization, trends towards the west. The mineralization is open along strike and depth, and was subsequently drilled in 2005. Fifteen grab samples, from an area of approximately 3 by 10 meters, were taken as shown in the following table.

Sample	Pb %	Zn %	Ag g/T	Ag oz/t	Au g/T	Type
Won 04-8	50.28	9.92	1243	38.8	2.95	rock subcrop
Won 04-9	34.53	15.04	753	23.5	3.36	rock subcrop
Won 04-10	13.18	17.88	361	11.3	3.44	rock subcrop
Won 04-11	0.09	20.61	53	1.6	1.01	rock subcrop
Won 04-12	0.78	21.18	64	2.0	1.36	rock subcrop
Won 04-13	4.96	8.72	105	3.3	0.66	rock subcrop
Won 04-14	10.25	7.27	187	5.8	1.02	rock subcrop
Won 04-15	11.26	9.47	1054	32.9	2.67	rock subcrop
Won 04-16	0.84	27.65	126	3.9	1.95	rock subcrop
Won 04-17			3		0.03	clay gouge
Won 04-18	1.49	21.01	112	3.5	2.57	rock subcrop
Won 04-19	1.79	24.91	83	2.6	3.2	rock subcrop
Won 04-20			4		0.03	quartz subcrop
Won 04-21			2		0.01	clay gouge
Won 04-22	10.53	19.12	309	9.7	2.85	rock subcrop

Table: Analyses of grab samples from subcrop, Trench 04-1

Trench 04-2, located approximately 100 meters down slope from 04-1 is located along a mine exploration road. It was centered on a weak VLF-EM anomaly and intersected a shear zone in mixed argillite and quartzitic argillite. Eight grab samples of the fault zone and adjacent host rocks were submitted for analyses but returned only trace silver and lead.

Trenches 04-3 and 04-4 were both located on VLF-EM anomalies in areas with no known mineralization. Trench 04-3, located approximately 180 meters west-southwest of the McLanders vein, exposed impure quartzite but no mineralization. Trench 04-4, located approximately 80 meters northwest of portal No. 1, intersected a 40 cm wide quartz vein that contained 1% pyrite and trace galena, sphalerite and chalcopyrite. Four grab samples were submitted for analyses and returned only trace Pb, Zn and Ag.

The Company followed up on the lead/zinc/silver-rich McLanders area of the Wonderful vein lode system this past summer. The vein in this area has been traced up slope for an additional 30 feet of strike length, giving a total vein exposure of 102 feet. Five random grab samples taken from the newly exposed portion of the vein have been assayed with the following results:

Sample	Pb %	Zn %	Ag oz/t	Type
1	79.93	0.80	197.6	rock subcrop
2	75.37	1.50	117.2	rock subcrop
3	44.72	2.28	63.1	rock subcrop
4	67.51	2.21	161.4	rock subcrop
5	71.10	3.11	113.2	rock subcrop

### *Drilling*

Ten holes were drilled (NQ core) on the Wonderful property in 2005, for a total of 674.5 meters. Data on the holes are summarized below. No drilling was conducted during the 2006 and 2007 field season.

DDH 05-1 and 2 were tests of coincident geophysical and geochemical anomalies just above the A portal and 160 meters northwest of the A portal, respectively. Both were collared on an access road, and both intersected barren, broken argillites that were stopped in fault breccias. No samples were submitted for analyses.

DDH 05-3, 4 and 5 were tests of mineralization trended near the portal of the McLanders vein. They intersected the down dip extension of the McLanders fault zone (05-3 and 4) and the strike extension to the northwest (05-5). Mineralization within this zone was sporadic, but generally zinc rich in contrast to more galena-rich exposures at surface. DDH 05-3 contained several thin fractured quartz veins over a core interval of approximately 40 meters (estimated true width of 25 meters, based on projection to surface and core/vein angles) that contained variable amounts of sphalerite and pyrite. The highest values, from 28.8 to 31.1 meters (approx. 1.5 m true width), assayed 5.1 ppm Ag, 0.2 % Pb and 0.99 % Zn. DDH 05-4 intersected a mineralized sphalerite-pyrite zone from 20.2 to 31.7 meters, with a 0.8 meter interval (approx. 0.5 m true width) containing 51.7 ppm Ag and 25.33 % Zn. DDH 05-5, a vertical hole approximately 20 meters northwest of holes 05-4 and 05-3, failed to intersect the McLanders vein.

Drill holes 05-6 and 05-7 were angle holes that tested a VLF-EM anomaly below Trench 04-3, approximately 150 meters southwest of drill hole 05-3. Neither intersected vein or a significant fault zone.

Drill holes 05-8 and 05-9 were attempts to intersect the new discovery vein that was located along a coincident geochemical/geophysical anomaly at Trench 04-1. The setup of both holes, on an exploration access road, was hampered due to deep, sloughed overburden and hence both holes were drilled at a shallow angle to the inferred strike of the vein and failed to adequately test its down-dip extension. They did, however, intersect siliceous, fractured zones, with thin quartz-carbonate veins that contained trace to minor sulphides (pyrite, pyrrhotite, chalcopyrite) along the margins of a hornblende porphyry intrusion.

Drill hole 05-10 was an attempt to intersect the inferred on strike extension of the main Wonderful vein system northeast of portal A. Near the bottom of the hole, a section of broken, fractured silicified argillite that may represent a fault zone structurally beneath the Wonderful vein was intersected.

In summary, drill results did confirm the down-dip (to approximately 48 meters) extension of the McLanders vein on the Wonderful property, but total sulphide and lead and silver grades were

considerably less than those exposed at surface. This supports conclusions that mineralization in these polymetallic lead-zinc-silver veins are highly variable within the through-going, controlling fault structures. Exploration therefore necessitates testing mineralized structures on fairly closely spaced intervals, by both drilling and trenching. Other drill holes, in areas with VLF-EM geophysical anomalies generally intersected fault structures with little or no mineralization.

#### *2006 Field Season*

Work continued on the compilation of all known data in the camp, in digital format on a GIS base. Two field crews conducted geochemical soil and geophysical surveys for most of the summer. Some backhoe trenching was done to follow up on geochemical and geophysical anomalies.

Klondike Silver continued to acquire additional property in its Slocan Silver Camp to expand its holdings during 2006. The Company has acquired the former producing Payne Mine located on the northwest end of a ridge extending northwesterly from Mount Payne approximately 10 kilometres northeast of New Denver, British Columbia. Production from the Payne Mine spanned 46 years from 1893 to 1939. From a total of 110,604 tonnes mined, 116,386,525 grams of silver (3.7 million ounces), 17,376,637 kilograms lead (15.7% lead) and 1,024,416 kilograms of zinc (9.3% zinc) were recovered (Minfile 082KSW006). Workings at the Payne property included seven adits and four intermediate levels, 6 to 10, to a depth of 440 metres below surface.

The Company has acquired the former producing Jackson Mine located in the Stenson Creek valley approximately 12 kilometres northeast of New Denver, British Columbia which was discovered in 1892 and had intermittent production until 1975. Production from the Jackson Mine included 3,106,070 grams of silver (99,800 ounces), 373 grams of gold (12 ounces), 3,060 kilograms cadmium (0.05% cadmium), 856,632 kilograms lead (14.6% lead) and 638,284 kilograms zinc (10.9% zinc) from 5,847 tonnes mined (Minfile 082KSW015). Workings at the mine include five adits and a 45 degree incline extending down to the Number 6 level covering 122 vertical metres.

The Company also acquired the Dragon claim located southwest of Bear Lake approximately 12 kilometres northeast of New Denver. The Dragon claim is north of the former Lucky Jim Mine where production spanned 66 years from 1893 to 1959 and from a total of 1,065,798 tonnes mined, 18,634,368 grams of silver (599,100 ounces silver), 2,799 grams gold (90 ounces gold), 194,847 kilograms cadmium (0.02% cadmium), 3,697,184 kilograms lead (0.34% lead) and 79,798,689 kilograms zinc (7.49% zinc) were recovered (Minfile 082KSW023).

These acquisitions expand the Company's land position in the Slocan Camp to a point where the Company's technical team believes it has 95% of the most prospective land in the entire camp but continues to look at other acquisitions to bolster its position in the area.

#### *2007 Program*

Klondike Silver is planning to open its Sandon mining complex in Sandon, B.C. in the Fall of 2007. The Company has been rehabilitating old underground workings at its Silvana mine and the Wonderful property both located within five kilometres of the Company's Sandon mill. This rehabilitation work has exposed several lead-zinc-silver veins, some of which have already had development work conducted. The Company intends to commence the mining of some of these veins in August while it continues exploration work on other properties and target areas located within trucking distance of the Sandon mill.

The Company has scheduled the commencement of rehabilitation work at its Hinckley mine also located within five kilometres of the Sandon mill. The Company is looking for several areas to

draw material for processing at its Sandon mining complex. The Company has a full suite of drills, trucks, loaders and other equipment necessary to commence mining in various areas

### **Other Acquisitions during the Fiscal Year**

#### **Haultain Property, Ontario**

The Company acquired an option to earn a 100% interest in the Haultain Property consisting of 11 claims in Haultain Township, Larder Lake Mining Division, Ontario. Consideration for the property consists of \$110,000 payable over four years, 375,000 shares payable over four years and a work commitment of \$500,000 over four years. There is a 2% net smelter return payable half of which may be purchased for \$1,000,000.

The target is silver-cobalt-nickel-copper mineralization. There were four shafts sunk on this property: The Haultain Shaft where a number of silver-cobalt veins were found to a depth of 350 feet. Native silver is reported in the veins with multiple ounce silver values reported. The Ottawa-Gowganda Shaft was sunk 207 feet with work on the 100 and 200 foot levels. The Millcrest Shaft was sunk 308 feet in 1925 and 7 high grade veins up to 12 inches wide with native silver and cobalt mineralization reported. The McAlpine Shaft was sunk 100 feet on a silver/cobalt vein but with no reported results. Little work has been done since the 1960's on the majority of the property with some not having been examined since the 1920's. Klondike Silver plans to complete compilation of existing data followed by prospecting, geochemistry and geophysics likely followed with diamond drilling.

#### **Wigwam/Silverdollar Property, Ontario**

Klondike Silver acquired an option to earn a 100-per-cent interest in the Wigwam/Silverdollar property, located in Haultain, Chown and Lawson Townships, Ontario. Consideration for the Property consists of \$60,000, 200,000 shares and a work commitment of US\$150,000 all over a period of 36 months. There is a 2-per-cent net smelter return payable, of which half may be purchased for \$1-million.

The Wigwam/Silverdollar Property consists of nine claims totaling 11 units for 400 acres and is accessed by various logging roads off of Highway 560. The Property is underlain by diabase and Lorrain formation. Previous work began back in 1926 when an 800-foot adit was driven into a ridge upon which numerous veins have been found that contain native silver. The adit was driven on a two-foot-wide vein. Several thousand feet of development was done on the veins. The Company plans to conduct prospecting and mapping in the spring on the property followed up by trenching and adit rehabilitation if deemed safe to confirm previous results.

#### **Milner Property, Ontario**

Klondike Silver acquired a 100-per-cent interest in the Milner Silver Property, located approximately 10 kilometres southwest of Gowganda, Ontario. Consideration for the Property consists of \$40,000, 200,000 shares and a work commitment of US\$75,000, all over a period of 36 months. There is a 2-per-cent net smelter return payable, of which half may be purchased for \$1-million.

The Milner property is located in Milner Township, consists of one claim totaling six units for 240 acres and is accessed by all-weather gravel roads off of Highway 560. In 1921, an open cut about 90 metres long, three metres wide and 5.5 metres deep was put into a diabase ridge on a 15-centimetre calcite vein with numerous stringers. Samples from this open cut assayed up to 130.9 ounces silver per ton and 0.45 per cent cobalt in 1984. Klondike Silver plans to conduct prospecting and mapping in the spring on the Property, followed up by trenching to confirm previous results.

### **Idaho Creek, Yukon**

The Idaho Creek prospect is subject to an agreement with ATAC Resources Ltd., which has granted Klondike Silver the optional right to earn a 50-per-cent interest by issuing a total of 500,000 shares over 1.5 years to ATAC and completing US\$2-million of exploration expenditures on the property over a three-year period. Idaho Creek lies about 150 kilometres south of Dawson City. Previous work has identified a five-kilometre-long, 500- to 1,500-metre-wide soil geochemical anomaly that includes peak values of 122 parts per million silver, 6,550 parts per million gold, 6,180 parts per million lead, 2,620 parts per million arsenic, 2,300 parts per million zinc and 1,110 parts per million antimony. The anomalies and mineralization occur on a frozen and mostly vegetated hillside. Although prospecting had discovered rocks that assayed to 1,258 grams per tonne silver and 13.3 grams per tonne gold, the size and intensity of the soil anomaly are largely unexplained. A program consisting of induced polarization (IP) survey and five reverse circulation percussion holes has recently been completed. Drill assays are not yet available but the IP survey outlined a 1,600-metre-long and up to 700-metre-wide area characterized by high-chargeability and low-resistivity values. The best response begins at a depth of 50 to 150 metres below surface. The area of favourable geophysical response approximately underlies the core of the soil geochemical anomaly. This data appears to support the exploration model which targets previous metal-rich veins and stockwork zones overlying a buried porphyry system.

### **Connaught Prospect, Yukon**

The Connaught prospect is located within the Sixtymile placer gold camp. Klondike Silver has optioned the property from ATAC and can earn a 50-per-cent interest by paying ATAC \$50,000, issuing it a total of 500,000 shares over 1.5 years and making exploration expenditures totaling US\$1-million over a three-year period. A property wide, time-domain electromagnetic system (VTEM) survey was recently completed by Geotech Ltd. This survey delineated strong conductors that appear to be related to an extensive system of veins that extend across ridge tops into the adjacent heavily vegetated and overburden covered valleys. Previous work had outlined a 13- by 5-kilometre area of anomalous geochemical response from stream sediment samples. Trenching along the lightly vegetated ridgetops exposed 0.3- to two-metre-wide veins that typically grade between 100 and 1,000 grams per tonne silver, and 0.3 to two grams per tonne gold. The next phase of exploration is expected to begin in late August or early September and will consist of excavator trenching coupled with construction of spur roads for future drill access of spur roads for drill access.

### **Magnum Property, Yukon**

The Company terminated its option on the Magnum property during the year.

### **Stump Property, Yukon**

The Stump property lies six kilometres east of the former Ketz gold mine, which is currently being explored by YGC Resources Ltd. Klondike Silver has the optional right to purchase a 100% interest by issuing to an arm's-length group of individuals a total of 300,000 shares. The vendors will retain a net smelter return royalty that could range from 2% to 5%, depending upon

the amount of processing the ores receive prior to smelting. The mineralization occurs in a strong vein that is exposed in bulldozer trenches and two levels of underground development. Trenching has exposed the vein over an 850-metre length, of which the best 247-metre grades 853.6 grams per tonne silver and 22.2 per cent lead over an average width of 1.2 metres. A raise extending from the upper adit to within three metres of surface averaged 582.8 grams per tonne silver and 16.5 per cent lead across 1.4 metres for a length of 40 metres up the incline of the vein. This prospect is primarily viewed as a small-scale high-grading opportunity that could be rapidly brought to production to capitalize on price spikes in the silver market.

In August 2007, Klondike Silver dug a trench along the best mineralized parts of the vein. Combined with earlier trenches, this excavation provides continuous exposure of the vein for a 350-metre strike length. Results of the 2007 excavator trenching present a slightly different interpretation than was suggested by previous bulldozer trenching. These results show that most of the metal is concentrated in discrete lenses, which should make it amenable to small-scale extraction without on-site beneficiation.

Samples taken from the bulldozer trenches in the 1960s were directed toward evaluation of underground mining potential and were laid out to conform with a minimum 1.2-metre (four-foot) mining width. Hence, in many instances narrow very-well-mineralized bands were not sampled independent of adjacent lower-grade material because they would have been mixed when blasted and mucked. Sampling on this basis outlined a 247-metre-long zone that reportedly averages 855 grams per tonne (g/t) (25 ounces per ton) silver and 22 per cent lead over a 1.2 m width.

The 2007 sampling was done with a focus on select surface extraction of the best mineralized material. Mapping of the vein outlined six main lenses of semi-massive to massive galena, which range from seven metres to 30 metres in length and 10 centimetres to 40 centimetres in width. These lenses have a total length of 75 metres and average about 25 centimetres in width. Their potential to depth is uncertain; but based on reported results from underground workings and drill holes, they likely become gradually thinner with increasing depth. None of the old core has been located and the portals to the adits are caved. Surface mapping also indicates that vein width and intensity of mineralization are strongly influenced by wallrock competencies with the widest, best-mineralized lenses occurring in moderately to thickly bedded dolomitic siltstone. Where the veins cut thinly bedded siltstone, they are narrow and only weakly mineralized.

Sawn channel samples were taken in 2007 across the vein at regular five-metre intervals along a length of 300 metres. Galena-rich exposures were sampled independent of the surrounding weakly mineralized material. The samples arrived at ALS Chemex in Vancouver during the first week of September. Assays will be reported when available

### **Maralgo Property, Ontario**

Klondike Silver acquired an option to earn a 100% interest in the Maralgo property, located in Milner Township, Ontario, approximately seven kilometres southwest of Gowganda. 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-million.

The Maralgo property consists of 10 claims totalling 12 units for 480 acres and is accessed by all-weather gravel roads off of Highway 560. The Maralgo property is located in the Gowganda silver mining camp in Ontario. Available historical government data indicate the property was last worked in the 1950s. The property is road accessible and is underlain by shallow-dipping Nipissing diabase and Huronian sediments. East-west-trending fracture zones cutting the diabase are infilled with quartz-carbonate vein material with massive niccolite and lesser amounts of

argentite, chalcopyrite and other minerals. Historical assessment file data indicate that sampling across a mineralized zone in trenches during the 1950s assayed 12.22% nickel (Ni) over 36 inches, 25.03% Ni over 24 inches and 11.26% Ni over 24 inches. In 1978, a government geologist's grab sample from a rock dump on the property analyzed 14.9% Ni, 5.31% cobalt and 0.16 ounce per ton silver.

Klondike Silver plans to trench historical showings on the property to assess the style, orientation and grade of mineralization. This information will then be used to orient a grid on the property followed by ground geophysics and geochemistry to explore the strike and depth extent of the mineralization.

### **Anvil Silver Property, Ontario**

Klondike Silver acquired an option to earn a 100% interest in the Anvil Silver property. The property is road accessible and is located about 35 kilometres south of Elk Lake, Ontario, in the Van Nostrand Township, Larder Lake mining division. Consideration for the property consists of \$80,000 and 300,000 shares issued over a period of 36 months. There is a 2% net smelter return payable, half of which may be purchased for \$1-million.

The Anvil Silver property consists of three claims totalling 1,880 acres in 47 units. The property is located in the historic Elk Lake silver camp in an area underlain by the Nipissing Diabase and Gowganda formation. There are numerous historical silver workings on the property, including the Bergeron Lake deposit, Darby silver mine, the Goldie Lake deposit, the Niccolite Lake deposit and the White Reserve mine. These were first discovered in the early 1900s, with limited work reported to be carried out through the 1970s. The area is considered prospective for silver, cobalt, nickel and copper mineralization.

The Company plans to complete a compilation of historical work, followed by prospecting and state-of-the-art ground geophysical and geochemical techniques to identify the strike extent of historical workings, prior to trenching and drilling.

### **South Bay Property, Ontario**

Klondike Silver 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 comprises \$85,000 and 100,000 shares, issued over a period of 24 months. There is also a 2% net smelter return payable, half of which may be purchased for \$1-million.

The South Bay property comprises four claims totalling 11 units and is accessed by road. Numerous shafts were sunk on the property from the 1920s to the 1960s. Little work has been done since the 1960s to explore multiple silver-bearing veins. Klondike Silver has contracted Geotech to fly the state-of-the-art VTEM B field airborne system to help identify the strike and depth extent of silver mineralized structures on the property and on adjacent properties owned by the Company in Milner Township. Survey results will be used in conjunction with surficial mapping, geochemical and trenching to identify targets for drilling on all the Milner properties.

### **Walsh Silver Property, Ontario**

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

The Walsh silver property consists of three claims totalling six units and is accessed by road from Gowganda. The property is located in the Gowganda silver camp, which has produced over 60 million ounces of silver from the late 1920s to the late 1960s. Four mine shafts have been previously sunk on this property (the Castle No. 1, Hart, Walsh or Tonopah and W. Purich shafts). To the Company's knowledge, induced polarization (IP) geophysical surveys have not been completed on this property in the past. Other properties in the area have had significant success with IP surveys and the Company plans to conduct survey work on the property over the next year. Less than one mile to the northwest, the Miller Lake O'Brien mine produced in excess of 40 million ounces of silver and 786,000 ounces of cobalt.

### **Santa Lucia Property, Mexico**

The Company entered into an option agreement with Kootenay Gold Inc. to acquire a 50-per-cent interest in the Santa Lucia property in Mexico. Consideration for the property consists of \$25,000 (U.S.) and 500,000 shares payable to Kootenay over two years. In addition, Klondike Silver will commit to a work program of \$1-million (U.S.) on the property within three years.

Kootenay Gold originally acquired the right to earn a 100-per-cent interest in the Santa Lucia property under the terms of a grubstake agreement entered into Aug. 1, 2005. Under the terms of the grubstake agreement, Kootenay Gold has elected to acquire Santa Lucia and must pay 100,000 shares over three years to earn its interest.

Located in southern Sonora state, the Santa Lucia property comprises 9,350 hectares in two concessions. Infrastructure on the property is excellent, with ready access to power and water, and a paved road traversing the property. It is well situated within 70 kilometres of a major city.

Geologically, the property is underlain by Tertiary-aged rhyolite flows and ignimbrites, basaltic andesites, probable Jurassic-aged sediments, and Cretaceous-aged felsic intrusives. Silver and gold mineralization is associated with epithermal-style veins, silica replacement zones and stockworks.

Two areas of identified mineralization occur, one on the north part of the project and a second on the south part of the project. Combined, alteration and mineralization of the two zones cover over 20 square kilometres. The zones are about 12 kilometres apart. Grab samples taken by Kootenay Gold range from background to 648 grams per tonne (g/t) silver and 12 g/t gold (as analyzed by 34-element ICP with an AA assay finish on silver and gold conducted by ALS Chemex in Vancouver, B.C.). Given the large extent of mineralization in multiple structures and host rocks potential for the discovery of a medium- to large-sized deposit of silver and gold is considered good.

Kootenay Gold recently concluded detailed airborne EM and magnetometer surveys along 1,254-line kilometres spaced 75 metres apart. The airborne survey was the AeroTEM system flown by Aeroquest Ltd. The survey was successful in mapping structural trends and in identifying discrete coincident EM and magnetic anomalies indicating the potential for both new areas and extensions to known areas of mineralization. Magnetics has mapped the structural trends controlling known mineralization and shown that these structures continue for significant distances beyond identified mineralization. Four distinct EM anomalies have been identified. These anomalies are focused along intersecting structural zones and, in one case, along an accurate trend possibly reflecting a caldera-like ring fracture system. They are important as the highest grades of gold and silver are associated with higher sulphide contents and the EM may be caused by higher

sulphides. The anomalies vary from elongate 80-metre to 200-metre-wide zones 3,000 metres long to broad zones 350 metres by 650 metres to circular highs 80 metres across.

The historic data acquired are for the southern part of the project only. This work identified four targets; two of which have been traced for two kilometres of strike. The zones consist of individual quartz veins up to three metres wide, and of silicified stockwork and breccias between 50 and 100 metres wide. This work also indicates silver and gold mineralization is found with deeper-style mesothermal veins and shallow-type epithermal veins. Values of silver and gold range from background to over 500 g/t silver and 34 g/t gold. The arithmetic mean of all the mechanical trenching on the Property was 7.2 metres at 0.75 g/t gold and 19.56 g/t silver. Highlights from trench results include 18 metres of 1.10 g/t gold and 3.8 g/t silver; 10.5 metres of 0.93 g/t gold and 50 g/t silver; and 3.0 metres of 4.7 g/t gold and 18.2 g/t silver. All samples were analyzed by Bondar Clegg of Vancouver, B.C., using 34-element ICP with an AA assay finish. It is reported that a small program of only 17 drill holes was conducted in 1999 and Kootenay Gold is working on obtaining those data. It is believed this work did not encounter ore-grade mineralization, but may aid in the understanding of controls and targeting future drilling. All data are historic in nature cannot be considered National Instrument 43-101-compliant and therefore should not be relied upon.

The new airborne data and old historic data are being integrated into a GIS system to aid planning the next exploration program which is being designed to identify a number of drill targets. It is expected this program will entail some detail mapping assisted by select trenching to help establish controls and may include some ground geophysics. Lessons learned from this work will be used to design a drill program for some time in the fall.

### **Staking Syndicate, Mexico**

Klondike Silver's partner, Kootenay Gold, has filed applications to cover 30 different hydrothermal mineral systems identified by it over the past several months. These hydrothermal mineral systems sit within and adjacent to the prolific Sierra Madre gold-silver belt. The belt was targeted because of the abundance of mineral deposits and mines it contains. They include over 15 million ounces of gold and 480 million ounces of silver resources and some of Mexico's largest operating gold and silver mines such as Mulatos, Ocampo, Alamo Dorado and El Sauzal. The region of interest is also host to significant copper potential as evidenced by the Pierdas Verdes mine scheduled to produce 70 million pounds of copper per year. Significant exploration work has yet to be conducted on the 30 mineral systems.

This staking is part of an option staking venture formed between Klondike Silver and Kootenay Gold whereby Klondike Silver entered into a letter agreement to advance Kootenay Gold the sum of \$250,000 (U.S.). The funds have been applied toward target generation and staking costs in Mexico. Klondike Silver has the right to select three areas (less any pre-existing claims and less any targets staked or identified under previous Kootenay agreements) and earn an initial undivided 50-per-cent interest in these three properties (which may cover 10,000 hectares or less in size), by: issuing to Kootenay Gold a total of 500,000 common shares of Klondike Silver over two years with respect to each property optioned; and completing at least a total of \$1-million (U.S.) in exploration expenses on each property optioned within three years. Evaluation of each of these mineral systems will be conducted over the coming months and once Klondike Silver has made its selection, Kootenay Gold will seek additional option partners to conduct further exploration on the remaining systems.

## Selected Annual Information

The following table sets forth selected information of the Company at May 31 for each of the past three years prepared in accordance with Canadian Generally Accepted Accounting Principles. The selected financial information should be read in conjunction with the Audited Financial Statements of the Company.

Canadian Dollars	2007	2006	2005
Other Income	17,137	Nil	Nil
Net loss	792,127	807,966	Nil
Net loss per share	0.02	0.06	0.00
Total assets	7,789,109	3,174,233	1
Long term debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

**NOTE:** The Company was incorporated on March 2, 2005 and did not have any significant expenses prior to August 31, 2005.

## Results of Operation

The Company acquired its assets in October 2005. Prior to October 2005 the Company was a wholly owned subsidiary of Klondike Gold Corp. with nominal expenses, as such the comparative numbers to the prior year will not be consistent. For the year ended May 31, 2007, the Company had a net loss of \$526,127 compared to the prior year with a net loss of \$807,966. The significant difference between the two years is:

- an increase of \$265,400 in consulting fees related to year end bonuses and additional staff for further acquisitions and personnel for projects related to the rehabilitation of the Sandon Mill;
- Mill caretaking expenses were \$Nil compared to \$97,017 in the prior year. The Company began aggressively rehabbing various adits and upgrading and Mill complex and as such management believes caretaking is no longer applicable. As such, the costs associated with this work have either been capitalized or expensed as labour and benefits (\$197,464), fuel (\$34,521 and supplies and maintenance (\$96,873). The costs in the prior year for these expenses were nil;
- \$119,683 in investor relations and promotion compared to nil the prior year as the Company only became public in April 2006 and had not attended any conferences and had prepared no promotional materials during the 2006 fiscal year;
- A reduction of \$325,200 in stock based compensation in the past year as a result of the accounting treatment of stock options;
- An increase in office administration of \$272,524 as some of these costs were covered by Klondike Gold in fiscal 2006;
- A charge of \$95,778 for Part XII.6 tax in 2007 compared to nil in 2006 is a result of the interest due on flow-through renunciations in 2006 prior to completing the work required by the flow-through financings completed by the Company in 2006;
- A write down of property in 2007 of \$328,847 compared to nil the prior year as the Company only had one property at the end of fiscal 2006 and has since acquired many properties and upon initial evaluation has decided not to proceed with some; and
- An increase of \$1,172,000 in future income tax benefit recognized on issuance of flow through shares in 2007 as a result of issuing more flow-through securities in 2007 than 2006.

As of May 31, deferred mineral property costs totalled \$4,059,545 and deferred mill and equipment costs were \$874,642 compared to \$689,898 and \$472,322 respectively at May 31, 2006. These costs represent the book value of the assets on Klondike Gold's financial statements at the time the assets were transferred to the Company plus additional equipment purchases by the Company and mineral property acquisition and exploration expenditures.

A private company controlled by one of the directors charged \$360,024 for the year ended May 31, 2007 (2006 - \$87,500) in respect of office administration costs on behalf of the Company. These charges commenced in November 2005. See "*Transactions with Related Parties*" below.

### Summary of Quarterly Results

The following table sets forth selected quarterly financial information for each of the last eight quarters with the figures for each quarter in Canadian dollars.

Quarter Ending	Other Income	Net Loss (Gain)	Net Loss per Share
May 31, 2007	12,394	574,880	0.00
February 28, 2007	4,743	(916,471)	0.00
November 30, 2006	Nil	487,815	0.01
August 31, 2006	Nil	645,903	0.02
May 31, 2006	Nil	672,800	0.06
February 28, 2006	Nil	100,183	0.01
November 30, 2005	Nil	34,863	0.00
August 31, 2005	Nil	120	0.00

**NOTE:** The Company was incorporated on March 2, 2005 and did not have any significant expenses prior to August 31, 2005. The large increase in May 2006 relates to large expenditures for stock based compensation and TSX Venture Exchange listing costs being largely incurred in the fourth quarter.

### Liquidity and Capital Resources

The Company had working capital of \$2,629,742 at May 31, 2007 compared to \$1,924,003 at May 31, 2006. The increase is a result of the Company completing several private placements during the year.

A private placement for 7,760,000 units at a price of \$0.40 per unit was completed in August 2006. Each unit 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 two years at a price of \$0.50 per share.

In December 2006, the Company closed a private placement raising \$1,907,500 through the sale of 3,815,000 units priced at \$0.50 per unit. Each unit consists of one common share and one warrant entitling the holder to purchase one additional share for a period of two years at a price of \$0.60 per share.

In addition, the Company has received \$447,468 from the exercise of 2,326,666 warrants and \$52,300 from the exercise of 261,500 options. 941,000 shares were issued as property payments.

Subsequent to the year end, the Company completed a private placement for 3,500,000 units at a price of \$0.40 per unit. Each unit consists of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share for a period of two years at a price of \$0.50 per share

### **Capital Resources**

The Company has raised funds from the issuance of flow-through common shares whereby the Company has agreed to incur those funds on Canadian Exploration Expenses (CEE”) and renounce, to the shareholders, the tax benefits associated with CEE incurred. As at May 31, 2007, the Company was committed to spend approximately \$3,072,000 on qualifying CEE.

Other than for CEE expenditures, the Company does not have any capital resource commitments.

### **Transactions with Related Parties**

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms for repayment.

Hastings Management Corp. (“Hastings”), a private company controlled by one of the directors charged \$360,024 (2006 - \$87,500) during the year ended May 31, 2007 in respect of office administration costs on behalf of the Company. Hastings provides services to the Company including supervising and administering the financial requirements of the Company’s business, producing quarterly accounts in accordance with public reporting requirements; communicating with various regulatory authorities in order to ensure compliance with all applicable laws; assisting in the preparation of news releases, professional analysis and planning of exploration programs, promotional materials and other documents required to be disseminated to the public and responding to any requests for information or questions which may be posed by the public; providing access to secretarial services and legal consultation; providing office space, office furniture, boardroom facilities, access to photocopier, fax and such other amenities normally associated with office needs; and providing such other additional instructions and directions as the Company may require. At May 31, 2007, \$Nil (2006 - \$7,735) was owed to Hastings.

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

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

The Company entered into a loan agreement with KG 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 the interest in the amount of \$1,233 was paid for the period from September 1, 2005 to November 29, 2005 calculated at 5%.

### **Fourth Quarter**

During the fourth quarter the Company continued rehabilitation work on its Sandon Mill and Silvana mine and continued to look for property acquisition opportunities.

### **Critical Accounting Estimates**

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. These costs net of option payments are deferred until the properties are brought into production, at which time they are amortised against production, or until the properties are sold or abandoned, at which time the expenditures are written off.

Compensation costs attributable to share options granted are measured at fair value at the grant date and are expensed with a corresponding increase to contributed surplus. Fair values are estimated applying the Black-Scholes option pricing model. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

### **Changes in Accounting Policy**

There were no changes to accounting policy during the year.

### **Financial Instruments and Other Instruments**

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. As of the date hereof, the Company's investment in resource properties has full exposure to commodity risk, both upside and downside. As the silver price moves so to does the underlying value of the Company's silver project.

### **Outstanding Share Data**

The authorized share capital consists of an unlimited number of common shares. As of May 31, 2007, an aggregate of 47,261,727 common shares were issued and outstanding.

The Company has the following 22,947,443 warrants outstanding as of May 31, 2007:

<u>Number of shares</u>	<u>Price per share</u>	<u>Expiry Date</u>
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

The following summarizes information about the stock option outstanding as of May 31, 2007:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
\$0.20	538,500	1.814	538,500
\$0.51	933,000	4.104	933,000
\$0.53	2,253,500	3.959	2,253,500
	<u>3,725,000</u>	<u>3.685</u>	<u>3,725,000</u>

**Investor Relations**

Directors and officer of the Company all participate in a limited investor relations program. The Company has an agreement with Dynamic Stock Market Analysis Ltd. to disseminate news releases, prepare e-reports of the Company and produce a video interview.

**Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the year that the disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others. It should be noted that while the Company's CEO and CFO believe that the disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**Internal Controls over Financial Reporting**

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company has assessed the design of the internal control over financial reporting and during this process the Company identified a certain weakness in internal controls over financial reporting which is as follows:

- Due to the limited number of staff, it is not feasible to achieve complete segregation of incompatible duties

The weakness in the Company's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Additional information can be found on the Company's website at [klondikesilver.com](http://klondikesilver.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).