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

For the Year Ended May 31, 2006

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, 2006 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 a spinoff of Klondike Gold Corp. ("KG") and is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "KS".

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 commenced trading on the TSX Venture Exchange on April 17, 2006 under the symbol of "KS". In order to effect the listing and meet the minimum listing requirements the Company completed a private placement of 6,786,793 units at a price of $0.20 per unit raising $1,357,359. 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 $0.20 per share.

On July 6, 2005, the Company entered into an Arrangement Agreement with KG in order to implement a statutory procedure known as a plan of arrangement (the "Arrangement") under Section 288 of the *Business Corporations Act* (British Columbia). The purpose of the Arrangement was to restructure KG by transferring certain of KG's mineral property interests and equipment to the Company in consideration for the Company assuming the ongoing obligations of KG in respect of the properties and equipment.

Shareholders of KG approved the Arrangement at an extraordinary meeting of shareholders on September 9, 2005. Pursuant to the Arrangement, completed on October 7, 2005, each five issued and outstanding common shares of KG were exchanged for five new common shares of KG and one reorganization share of KG. All of the reorganization shares of KG were transferred by the

shareholders to the Company and in exchange the Company issued 18,305,752 common shares to the shareholders on a one-for-one basis. KG then redeemed all of the reorganization shares held by the Company by transferring its interest in the mineral properties and equipment.

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

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. Permits for trenching and drilling (2005) have also been applied for and approved by the provincial government.

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 a VLF-EM geophysical survey and soil geochemical survey were done on the property in 1981, and the results had not been followed up on. As well, the mill was 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.

Sample	**Pb %**	**Zn %**	**Ag gm/t**	**Ag oz/ton**	**sample type**
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 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 trenched 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.

Recent New Acquisitions

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 $200,000 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.

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 $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 totalling $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 Magnum property is accessed by a haulage road that extends from Dawson City to the former Clinton Creek mine. It is under option from Strategic Metals Ltd., which has granted Klondike Silver the right to earn a 50-per-cent interest by issuing 300,000 of its shares over two years and making exploration expenditures totalling $1-million over a three-year period. The property is accessed by a haulage road that extends from Dawson City to the former Clinton Creek mine. The Magnum area is unglaciated and hence exhibits deep weathering and limited bedrock exposures. The stratigraphic package at Magnum is the faulted offset of Finlayson district, which hosts numerous volcanogenic massive sulphide prospects, most notably the Kudz Ze Kayah and

Wolverine deposits. The stratigraphic setting at Magnum closely resembles that of Wolverine, including a distinctive magnetite-rich horizon that is present at both properties. Two main target areas have been identified on the Magnum property. VTEM surveys were also done here in conjunction with those at Connaught. These surveys identified magnetic anomalies and electromagnetic conductors that will be modelled to target a shallowly dipping volcanogenic massive sulphide horizon. Diamond drilling is scheduled for September.

Stump Property, Yukon

The Stump property lies six kilometres east of the former Ketza gold mine, which is currently being explored by YGC Resources Ltd. Klondike Silver has the optional right to purchase a 100-per-cent 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 per cent to 5 per cent, 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. Channel samples have been collected so that metallurgical tests can be done to determine the most cost-effective way to produce a marketable concentrate.

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. There are two distinct centres of mineralization, situated about eight kilometres apart, each of which has had some limited mining by local Gambusinos. An area of mineralized float sits midway between these two areas and may represent a third centre of mineralization.

The northernmost area consists of widespread quartz veining and replacement-style silicification. Recent work indicates that silicification may in part be a stratabound silica cap indicating the upper levels of an epithermal system. Silica caps form good barriers for the pooling and concentration of mineralizing fluids. The area of alteration is open-ended in two directions and measures 600 metres by 3,000 metres. Select grab samples range from background to 495 parts per million silver and background to 12 parts per million gold.

The second area contains two distinct types of mineralization, consisting of broad zones of stockwork quartz veining traced along strike for two kilometres by previous workers and narrower distinct veins with an apparent strike length of two kilometres.

Kootenay Gold and Klondike Silver believe that the significant silver and gold values returned at such high levels in an epithermal system indicate high potential for the discovery of both high-grade and low-grade silver and gold deposits. Plans for the property will commence with the gathering and compilation of any available historic data, followed by geologic mapping and sampling programs to identify areas for follow-up geophysical, trenching and drilling programs.

Selected Annual Information

The following table sets forth selected information of the Company at May 31 for each of the past two 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	**2006**	**2005**
Other Income	Nil	Nil
Net loss	807,966	Nil
Net loss per share	0.06	0.00
Total assets	3,174,233	1
Long term debt	Nil	Nil
Dividends	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 does not have any comparative numbers to a prior year as its assets were only acquired in October 2005 and the Company was a wholly owned subsidiary of KG prior to October 2005 with nominal expenses. For the year ended May 31, 2006, the Company had a net loss of $807,966 since inception. The most significant expenditure during the year was stock based compensation of $642,200, which is a non-cash charge resulting from accounting practices required of public companies which expense stock options based on various assumptions and formulas. The other significant expenditures include $97,017 in mill caretaking charges, $87,500 in administration expenses and $48,855 in regulatory and stock transfer fees. The later two expenses relating to listing the Company on the TSX Venture Exchange and the mill and caretaking charges are maintenance and improvements to the Company's mill in the Slocan.

The Company charged back $202,000 in future income tax recovery due to the renunciation of potential tax benefits to investors related to flow-through shares issued in the prior year. Canadian accounting rules require companies to reduce their share capital balance by the loss of the tax benefit for the renunciation of flow-shares. This has the effect of reducing share capital and increasing net income.

As of May 31, 2006, deferred mineral property costs totalled $689,898 and deferred mill and equipment costs were $472,322. These costs were the book value of the assets on KG's financial statement at the time the assets were transferred to the Company and additional equipment

purchases by the Company and mineral property acquisition and exploration expenditures of $82,356.

A private company controlled by one of the directors charged $87,500 for the year ended May 31, 2006 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 five quarters with the figures for each quarter on a cumulative year-to-date basis in Canadian dollars.

Quarter Ending	Other Income	Net Loss	Net Loss per Share
May 31, 2006	Nil	807,966	0.06
February 28, 2006	Nil	170,148	0.01
November 30, 2005	Nil	34,983	0.00
August 31, 2005	Nil	120	0.00
May 31, 2005	Nil	0	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 $1,924,003 at May 31, 2006 compared to $1,350,629 at February 28, 2006. The increase in working capital is a result of the Company completing a private placement of 4,075,000 units at a price of $0.30 per unit in May 2006. 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 $0.40 per share. The Company's cash position at May 31, 2006 was $1,899,490. In addition, the Company received proceeds of $137,483 during the fourth quarter from the exercise of share purchase warrants.

Subsequent to the year end the Company closed a private placement of 7,760,000 units priced at $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, 2006, the Company is committed to spend $1,458,810 on qualifying CEE.

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

Transactions with Related Parties

Hastings Management Corp. ("Hastings"), a private company controlled by one of the directors charged $12,500 during the period ended December 31, 2005 in respect of office administration costs on behalf of the Company. On January 1, 2006 the management fee was $15,000 per month plus 5% for administrative overhead on out-of-pocket expenses. 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.

Consulting fees in the aggregate of $8,500 were paid to various directors throughout the year.

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%.

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.

Fourth Quarter

During the fourth quarter the Company completed the process of listing its shares on the TSX Venture Exchange, initiated its exploration programs on its Slocan properties, completed additional financing and began looking for other property acquisition opportunities.

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, 2006, an aggregate of 31,987,562 common shares were issued and outstanding.

The Company has the following warrants outstanding as of May 31, 2006:

Number of shares	Price per share	Expiry Date
69,333	$0.26250	June 1, 2006
170,000	$0.23125	September 30, 2006
1,625,000	$0.18125	March 2, 2007
795,000	$0.12500	July 22, 2007
1,500,000	$0.20000	January 10, 2008
5,232,443	$0.20000	February 06, 2008
375,000	$0.20000	February 06, 2008
4,075,000	$0.40000	May 15, 2008

The following summarizes information about the stock option outstanding as of May 31, 2006:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
$0.200	804,000	2.31	804,000
$0.530	2,253,500	4.96	2,253,500
	3,057,500	4.26	3,057,500

Investor Relations

Directors and officer of the Company all participate in a limited investor relations program. The Company has no arrangements for external promotional activities.

Other Matters

Additional information relating to the Company can be found on SEDAR at www.sedar.com.