KOOTENAY
SILVER INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended

June 30, 2016

and

June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

Notice of no Auditor review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Index

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

KOOTENAY SILVER INC.
(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		June 30, 2016		December 31, 2015
ASSETS				
Current:				
Cash and cash equivalents	**$**	**3,536,195**	$	730,682
Receivables and advances (Note 9, 12)		**1,464,758**		386,764
Prepaid expenses		**249,120**		113,432
Marketable securities (Note 5)		**532,640**		238,890
Total current assets		**5,782,713**		1,469,768
Non-current assets:				
Equipment (Note 6)		**965,299**		190,141
Advances and deposits		**89,977**		89,977
Mineral properties (Note 4, 7)		**62,773,012**		38,286,702
Total assets	**$**	**69,611,001**	$	40,036,588
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities (Note 12)	**$**	**764,302**	$	488,033
Current portion of termination benefit liability (Note 4)	**$**	**403,522**	$	-
Total current liability		**1,167,824**		488,033
Long term liabilities:				
Non-current portion of termination benefit liability (Note 4)	**$**	**323,073**	$	-
Total liabilities		**1,490,897**		488,033
Equity:				
Share capital (Note 8)		**76,692,121**		50,397,700
Contributed surplus (Note 8)		**24,932,035**		19,886,206
Accumulated other comprehensive loss (Exhibit 4)		**3,763,350**		4,783,667
Deficit		**(37,267,402)**		(35,519,018)
Total equity		**68,120,104**		39,548,555
Total liabilities and equity	**$**	**69,611,001**	$	40,036,588

Approved on Behalf of the Board:

"James McDonald"
Director

"Jon Morda"
Director

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
General and administrative expenses				
Depreciation (Note 6)	**$ 12,336**	$ 14,060	**$ 23,889**	$ 28,491
Office and general (Note 12)	**345,568**	278,736	**674,500**	592,275
Management fees (Note 12)	**94,250**	89,750	**179,500**	179,500
Share based payments (Note 8)	**20,063**	110,348	**57,682**	311,916
Professional fees	**42,882**	95,733	**204,072**	203,000
Regulatory and filing fees	**13,589**	3,150	**31,095**	31,750
Rent	**20,836**	22,608	**44,908**	44,367
Loss before exploration and other Items	**549,524**	614,385	**1,215,646**	1,391,299
Exploration				
Mineral property investigation (Note 7)	**163,294**	7,831	**185,495**	29,099
Impairment of mineral property (Note 7)	**-**	-	**25,837**	17,343
Mining exploration refund previously impaired properties	**-**	-	**(76,403)**	-
	163,294	7,831	**134,929**	46,442
Other Items				
Foreign exchange (gain)/loss	**(101,661)**	84,553	**(271,912)**	(54,031)
Termination benefit allowance (Note 4)	**726,595**		**726,595**	
Finance income	**(48,117)**	(6,038)	**(56,874)**	(16,588)
	576,817	78,515	**397,809**	(70,619)
Loss for the period	**1,289,635**	700,243	**1,748,384**	1,367,122
Basic and diluted loss per share (Note 8)	**$ (0.009)**	$ (0.008)	**$ (0.018)**	$ (0.018)
Weighted average number of shares outstanding	**137,448,071**	**74,788,897**	**95,973,118**	**74,282,141**

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE (INCOME)/LOSS

Exhibit 3

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Loss for the period	**$ 1,289,635**	$ 700,243	**$ 1,748,384**	$ 1,367,122
Other comprehensive (income)/loss				
Unrealized income on available-for-sale financial assets arising during the period	**(260,050)**	(33,500)	**(293,750)**	(9,075)
Foreign currency translation differences of foreign operations	**261,704**	401,857	**1,314,067**	(1,675,466)
Total other comprehensive loss/(income)	**1,654**	368,357	**1,020,317**	(1,684,541)
Comprehensive loss/(income)	**$ 1,291,289**	$ 978,544	**$ 2,768,701**	$ (317,419)

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2014	72,230,683	$	48,935,618	$	18,703,382	$	(716,130)	$	(31,990,627)	$	34,932,243
Shares issued, net of issuance costs	6,870,714		1,416,795		659,868		-		-		2,076,663
Acquisition of mineral properties	320,000		120,900		-		-		-		120,900
Share based payment	-		-		447,343		-		-		447,343
Warrant expiration date amendment	-		(75,613)		75,613		-		-		-
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		16,075		-		16,075
Reclassification adjustment for losses on available-for-sale	-		-		-		729,580		-		729,580
Foreign currency translation differences of foreign operations	-		-		-		4,754,142		-		4,754,142
Loss for the year	-		-		-		-		(3,528,391)		(3,528,391)
Balance, December 31, 2015	79,421,397	$	50,397,700	$	19,886,206	$	4,783,667	$	(35,519,018)	$	39,548,555
Shares issued, net of issuance costs	15,884,459		3,422,048		-		-		-		3,422,048
Acquisition of mineral properties	35,000		8,400		-		-		-		8,400
Shares issued on acquisition of Northair Silver Corp. (Note 4)	53,909,261		20,215,973		4,988,147		-		-		25,204,120
Shares issued on NSR acquisition from Coeur Capital (Note 4)	9,629,091		2,648,000		-		-		-		2,648,000
Share based payment	-		-		57,682		-		-		57,682
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		293,750		-		293,750
Foreign currency translation differences of foreign operations	-		-		-		(1,314,067)		-		(1,314,067)
Loss for the period	-		-		-		-		(1,748,384)		(1,748,384)
Balance, June 30, 2016	158,879,208	$	76,692,121	$	24,932,035	$	3,763,350	$	(37,267,402)	$	68,120,104

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Cash flows from operating activities				
Loss for the period	**$ (1,289,635)**	$ (610,187)	**$ (1,748,384)**	$ (1,367,122)
Add items not involving any outlay of cash:				
Share based payment	**20,063**	110,348	**57,682**	311,916
Impairment of mineral property	**-**	-	**25,838**	17,343
Depreciation	**12,336**	14,060	**23,889**	28,491
	(1,257,236)	(485,779)	**(1,640,975)**	(1,009,372)
Changes in non-cash working capital balances:				
Receivable and advances	**50,846**	101,299	**(29,014)**	231,821
Prepaid expenses	**(43,232)**	41,486	**(45,125)**	(125,373)
Accounts payable and accrued liabilities	**748,348**	33,459	**925,706**	(13,729)
	(501,274)	(309,535)	**(789,408)**	(916,653)
Cash flows from financing activities				
Shares issued, net of share issuance costs	**1,638,799**	-	**3,430,448**	789,963
Receipt of mineral property payment	**-**	-	**343,100**	-
	1,638,799	-	**3,773,548**	789,963
Cash flows from investing activities				
Investment in mineral properties	**(1,029,115)**	(827,994)	**(1,585,141)**	(1,508,175)
Investment in equipment	**-**	(1,682)	**(1,459)**	(3,853)
Reclamation deposits	**-**	14,000	**-**	14,000
Cash acquired in *Northair Silver* acquisition (Note 4)	**1,483,298**	-	**1,483,298**	-
Receipt of mining exploration refund	**-**	-	**216,726**	-
	454,183	815,676	**113,424**	(1,498,028)
Effect of foreign exchange rate changes on cash	**(67,463)**	15,589	**(292,051)**	(14,377)
Increase (decrease) in cash and cash equivalents during the period	**1,524,245**	(1,109,622)	**2,805,513**	(1,639,095)
Cash and cash equivalents, beginning of the period	**2,011,950**	1,831,349	**730,682**	2,360,822
Cash and cash equivalents, end of the period	**$ 3,536,195**	$ 721,727	**$ 3,536,195**	$ 721,727

Supplemental disclosure of cash and non-cash activities (Note 11)

- see accompanying notes -

((Expressed in Canadian dollars)

1 Reporting Entity:

Kootenay Silver Inc. (the "Company") is a Canadian exploration stage company incorporated under the *Business Corporations Act* (British Columbia). The address of the Company's registered office is 910 - 810 West Pender St. Vancouver, British Columbia, Canada.

The Company is focused on acquiring and exploring mineral properties principally located in North America, with the objective of identifying mineralized deposits economically worthy of subsequent development, mining or sale.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. There are conditions and events, which constitute material uncertainties that may cast significant doubt on the validity of this assumption.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. During the six months ended June 30, 2016, the Company raised aggregate gross proceeds of $3,553,431 from the closing of a non-brokered private placement. Subsequent to June 30, 2016, the Company closed an oversubscribed brokered private placement raising total gross proceeds of $6,029,316 (see Note 18), which included Pan American Silver Corp. participating to maintain their pro-rata ownership position of 10%. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

The Company has predominately experienced operating losses and negative operating cash flows; operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. Management has estimated that the Company has sufficient financing to complete current work plans; however, future development will require additional financing in order to complete all anticipated exploration and other programs during the year ending December 31, 2016 and thereafter. If funds are unavailable on terms satisfactory to the Company, some or all planned activities may be cancelled or postponed.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of resource property expenditures is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. The Company will need access to capital to continue advancing its projects in Mexico and Canada, as well as other property interests.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

	June 30, 2016	June 30, 2015
Deficit	$ 37,267,402	$ 33,357,749
Working capital	$ 4,614,889	$ 1,252,441

2 Basis of Presentation:

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS") applicable to the preparation of financial statements.

The policies applied in these consolidated interim financial statements are consistent with the accounting policies disclosed in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2015. These consolidated interim financial statements should be read in conjunction with the Company's audited consolidated statements for the year ended December 31, 2015. These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on August 29, 2016.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the parent, Kootenay Resources Inc. and Northair Silver Corp. The functional currency of Minera JM S.A. de C.V. and Kootenay Gold (US) Corp. is the US dollar and Servicios de Exploraciones Sonora, S.A. de C.V. and Grupo Northair de Mexico S.A. de C.V. is the Mexican Peso.

Assets and liabilities of the subsidiaries with a functional currency in US dollars and Mexican pesos are translated at the period-end exchange rates, and the results of its operations are translated at average exchange rates for the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive loss.

3 Significant Accounting Policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The significant accounting policies adopted by the Company are as follows:

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial instruments which are measured at fair value through other comprehensive loss and share based payments which are measured at fair value through profit or loss.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kootenay Resources Inc. (formerly Kootenay Gold Corp), Northair Silver Corp., both of which are incorporated in Canada, Minera JM S.A. de C.V., Servicios de Exploraciones Sonora, S.A. de C.V. and Grupo Northair de Mexico S.A. de C.V. all of which are incorporated in Mexico and Kootenay Gold (US) Corp. a company incorporated in the US.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated in full upon consolidation.

3 Significant Accounting Policies *(continued):*

Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the year. By their nature, these estimates and judgments are subject to uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant. Actual results may differ from those estimates and judgements.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

(i) Equipment

The Company estimates the useful lives of equipment based on the period over which the assets are expected to be available for use. The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company. The amounts and timing of recorded expenses for any period would be affected by changes in assumptions and estimates used.

(ii) Exploration and evaluation assets

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded.

(iii) Decommissioning liabilities

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation, as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

(iv) Share based payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 7 and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project, which will impact the consolidated financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

(v) Taxes

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

3 Significant Accounting Policies *(continued)***:**

Significant judgments used in the preparation of these consolidated financial statements include, but are not limited to:

(i) those relating to the assessment of the Company's ability to continue as a going concern;
(ii) the determination of functional currency; and
(iii) evaluating impairment associated with marketable securities.

Foreign currency transactions

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of loss.

Cash and cash equivalents

Cash is comprised of cash on hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Future accounting standards issued but not yet adopted

The following amendments to existing standards were issued by the International Accounting Standards Board ("IASB") and are effective for annual periods beginning on or after January 1, 2016. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*, and other lease related interpretations. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted only in conjunction with IFRS 15. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9, *Financial Instruments* ("IFRS 9") and to reduce the complexity in the classification and measurement of financial instruments. The completed version of IFRS 9 includes classification and measurement, impairment and hedge accounting requirements and is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

4 Acquisition of Northair Silver Corp.:

On April 21, 2016, the Company completed the acquisition of all the outstanding common shares of Northair Silver Corp. ("Northair") on the basis of 0.35 common shares in the capital of the Company for each Northair share and 0.15 common share purchase warrants of the Company. The warrants have a five year term from closing and have an exercise price of $0.55, additionally the warrants are listed on the TSX Venture Exchange ("TSXV") under the symbol "KTN.WT". Additionally, the Company assumed all warrants and options currently outstanding for Northair under the same ration basis of 0.35 and upon exercise 0.15 of tradeable warrants under the same terms as originally issued. The acquisition was carried out by way of a court-approved plan of arrangement (the "transaction") under the Business Corporations Act (British Columbia). Upon closing, Northair and its Mexican subsidiary, Grupo Northair de Mexico S.A. de C.V. ("Grupo Northair") which holds the La Cigarra Silver project, located in Chihuahua, Mexico, became wholly-owned subsidiaries of the Company.

(Expressed in Canadian dollars)

4 Acquisition of Northair Silver Corp. *(continued)*:

The acquisition of Northair has been recorded as an asset acquisition for accounting purposes, when applying the guidance within IFRS 3 *Business Combinations.*

Consideration paid:

Fair value of 53,909,261 common shares issued	20,215,973
Black-scholes value of 23,103,969 common shares purchase warrants	4,988,147
Transaction costs incurred by the Company	457,975
Total consideration paid	**25,662,095**

The fair value of identifiable assets acquired and liabilities assumed from Northair were as follows:

Cash	1,483,298
Accounts and other receivables	1,084,321
Prepaid expenditure	81,551
Capital assets	803,351
Mineral properties	22,283,146
Accounts payable and accrued liabilities	(73,572)
Net identifiable assets acquired	**25,662,095**

The Company expensed $726,595 for the allowance of termination benefits related to the certain individuals contracted to Northair. Such agreements did not meet the criteria of capitalization under IFRS 3 and were therefore expensed in the period. Of the total liability, $403,522 is due within the next 12 months and the balance of $323,073, thereafter.

5 Marketable Securities:

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value at the end of the reporting period. As at June 30, 2016, the market value of securities held is $532,640 (2015 – $206,890). The Company recorded other comprehensive income of $293,750 (2015 – $9,075) for fair value adjustments to marketable securities.

(Expressed in Canadian dollars)

6 Equipment:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Land	Total
Cost						
Balance December 31, 2014	**232,691**	**66,485**	**216,142**	**60,321**	**-**	**575,639**
Additions	-	-	4,550	-	-	4,550
Impaired	-	-	(2,659)	-	-	(2,659)
Effect of foreign exchange	58,015	-	31,143	-	-	89,158
Balance December 31, 2015	**290,706**	**66,485**	**249,176**	**60,321**	**-**	**666,688**
Addition	3,255	3,916	1,459	-	796,039	804,669
Effect of foreign exchange	5,981	-	2,495	-	-	8,476
Balance June 30, 2016	**299,942**	**70,401**	**253,130**	**60,321**	**796,039**	**1,479,833**
Accumulated Depreciation						
Balance December 31, 2014	**187,238**	**41,484**	**111,044**	**18,001**	**-**	**357,767**
Depreciation for year	19,382	4,662	18,434	12,347	-	54,825
Effect of foreign exchange	50,983	5	12,967	-	-	63,955
Balance December 31, 2015	**257,603**	**46,151**	**142,445**	**30,348**	**-**	**476,547**
Depreciation for period	8,290	2,130	7,719	5,750	-	23,889
Effect of foreign exchange	8,360	81	5,657	-	-	14,098
Balance June 30, 2016	**274,253**	**48,362**	**155,821**	**36,098**	**-**	**514,534**

Carrying value December 31, 2015	**33,103**	**20,334**	**106,731**	**29,373**	**-**	**190,141**
Carrying value June 30, 2016	**25,689**	**22,039**	**97,309**	**24,223**	**796,039**	**965,299**

(Expressed in Canadian dollars)

7 Mineral Properties:

	MEXICO						CANADA					
	Promontorio	**La Cigarra**	**Sonora Anomalies**	**Cervantes***	**San Diego**	**Mexico Total**	**Nechako Region**	**Silver Fox***	**Other**	**Canada Total**	**2016 Total**	**2015 Total**
	$	$	$	$	$	$	$	$	$	$	$	$
Acquisition Costs												
Balance, beginning	3,658,642	-	591,681	-	94,485	4,344,808	153,380	40,250	1,314,485	1,508,115	5,852,923	5,629,727
Incurred	-	25,652,837	-	-	53,994	25,706,831	-	-	8,400	8,400	25,715,231	223,196
Balance, ending	3,658,642	25,652,837	591,681	-	148,479	30,051,639	153,380	40,250	1,322,885	1,516,515	31,568,154	5,852,923
Exploration Expenditures												
Balance, beginning	31,771,281[1]	-	6,520,166	183,816	104,921	38,580,184[1]	481,707	703,346	5,710,860	6,895,913	45,476,097[1]	44,275,874[1]
Assaying and Lab	4,344	9,431	854	-	-	14,629	-	-	-	-	14,629	172,784
Camp Costs	19,055	4,078	-	2,548	-	25,681	-	-	-	-	25,681	194,675
Drafting	19,056	7,945	2,445	-	-	29,446	-	16,438	-	16,438	45,884	129,727
Drilling	714	-	-	-	-	714	-	-	-	-	714	487,495
Geological mapping	6,264	-	464	-	-	6,728	-	13,728	-	13,728	20,456	98,587
Geophysics	-	-	-	-	-	-	-	10,395	-	10,395	10,395	-
Maintenance	41,830	-	27,513	2,017	-	71,360	1,800	20,241	12,316	34,357	105,717	314,717
Miscellaneous	19,548	-	-	-	-	19,548	-	-	-	-	19,548	24,071
Geological Consulting and Prospecting	51,553	135,507	7,359	6,284	65	200,768	-	31,284	4,500	35,784	236,552	663,378
Rock Sampling	14,250	-	2,878	-	-	17,128	-	-	-	-	17,128	72,000
Metallurgical testing	-	-	-		-	-	-	-	-	-	-	29,439
Incurred	176,614	156,961	41,513	10,849	65	386,002	1,800	92,086	16,816	110,702	496,704	2,186,873
Balance, ending	31,947,895	156,961	6,561,679	194,665	104,986	38,966,186	483,507	795,432	5,727,676	7,006,615	45,972,801	46,462,747
Total property balance	35,606,537	25,809,798	7,153,360	194,665	253,465	69,017,825	636,887	835,682	7,050,561	8,523,130	77,540,955	52,315,670
Recovery of costs	-	-	(3,466,284)	(32,034)	(106,520)	(3,604,838)	-	(300,527)	(2,685,107)	(2,985,634)	(6,590,472)	(6,356,350)
Mineral exploration refund	-	-	-	-	-	-	(78,344)	(70,650)	(236,551)	(385,545)	(385,545)	(212,707)
Proceeds from sale	-	-	-	-	-	-	-	-	(230,000)	(230,000)	(230,000)	(230,000)
Option payment received	(320,938)	-	(8,000)	(13,218)	-	(342,156)	-	-	(121,000)	(121,000)	(463,156)	(142,218)
Impaired or disposed	(537,744)	-	(2,631,822)	(14,034)	-	(3,183,600)	(555,187)	-	(3,359,983)	(3,915,170)	(7,098,770)	(7,087,693)
Carrying value mineral property	34,747,855	25,809,798	1,047,254	135,379	146,945	61,887,231	3,356	464,505	417,920	885,781	62,773,012	38,286,702

[1]Includes foreign exchange related to translation of foreign operations
*Earn-in option agreement

7 Mineral Properties *(continued)***:**

La Cigarra - Chihuahua State, Mexico

The Company acquired the La Cigarra project through the acquisition of Northair and its wholly owned Mexican subsidiary Grupo Northair on April 21, 2016 (see Note 4).

La Cigarra project is 100% owned by the Company, and the Company has assumed the obligations of Northair under an agreement with DFX Exploration (the "DFX Agreement"), in which there is a 1% net smelter royalty payable to the original property vendor that is allowed for in the DFX Agreement . Additionally, DFX will be paid an upfront bonus of $0.10 per silver ounce equivalent up to a maximum of 50 million ounces if prior to September 30, 2016, at least 50 million silver equivalent ounces are estimated to exist on Parral 2 in a NI 43-101 technical report prepared by the Company. If silver equivalent ounces are produced from Parral 2, DFX will be paid $0.10 per silver equivalent ounce from production to a maximum of (i) 135 million ounces, in the event that DFX received the upfront bonus or (ii) 185 million ounces if the upfront bonus was not applicable.

The Company closed on April 19, 2016, the purchase from Coeur Capital, the previously held 2.5% Net Smelter Royalty ("NSR") on the La Cigarra project for gross payment of US$2,500,000; US$500,000 ($646,025) in cash and the issuance of 9,629,091 common shares of the Company valued at US$2,000,000 ($2,648,000). The NSR acquisition and transaction costs have been recorded as La Cigarra acquisition costs.

Promontorio - Sonora State, Mexico

The Company entered into an agreement on October 20, 2006 with Siete Campanas de Plata, S.A de C.V. ("Siete"), Exploration Canada De Oro, SA de CV ("ECO") and the Mexican Government Agency ("FIFOMI") to acquire an unencumbered 100% registered and beneficial interest in the Promontorio Concession, which includes the former producing Promontorio Mine Site. Upon completion of a bankable feasibility study or commencement of production, the Company must pay the remaining cash balance of US$210,000 to ECO.

A 1% net smelter royalty is payable to Siete on the core claims of Promontorio of which the Company can purchase 50% of this net smelter royalty at any time for US$500,000. The Company also has a first right of refusal to purchase the remaining 50% of this royalty. Additionally, a 2% net smelter royalty is payable to ECO on the core and surrounding claims. The Company may upon commencement of commercial production or sooner purchase 50% of this net smelter return for US$1,000,000. The Company also has a right of first refusal on the remaining 50% of this royalty.

On March 4, 2016, (also see February 15, 2016 new release) the Company formalized and closed an option agreement with Pan American and its wholly owned Mexican subsidiary Compania Minera Dolores S.A. de C.V. ("Dolores") whereby the Company and MJM granted Dolores the right to earn a 75% interest in MJM's Promontorio Mineral Belt silver properties (including the Promontorio deposit and La Negra discovery). The terms of the agreement allow Dolores to earn a 75% interest in consideration for: an aggregate total of US$8,000,000 of exploration and development expenditures on MJM's properties in the Promontorio Mineral Belt over a four-year period; cash payments totaling US$8,050,000 to MJM, with US$250,000 received on closing and the balance over a four-year period; and a carried interest to production.

Upon exercise of the option, the parties will enter into a joint venture pursuant to which the Company will retain a 25% carried interest to production. Pan American will have a preferred capital recovery period after the commencement of production, under which the Company will receive 40% of distributions on its 25% retained interest in the joint venture until Pan American fully recovers its invested capital, which will include construction and development capital, plus any additional expenditures incurred after the date on which Dolores exercises the option.

7 Mineral Properties *(continued)***:**

Santa Lucia - Southern Sonora State, Mexico

On May 1, 2006, amended September 27, 2006, the Company entered into an agreement and acquired a 100% interest in two mineral claims comprised of 9,350 hectares. During the year ended December 31, 2014, the Company abandoned one of the claims totalling 9,330 hectares. A 2% net smelter return is payable on the remaining claim. The Company may purchase 50% of the net smelter return for US$1,000,000 and has the right of first refusal on the remaining 50%.

San Diego – Northwest Sonora, Mexico

On April 8, 2014, the Company entered into an option agreement to acquire an undivided interest in the San Diego concession from an arms-length party. Under the terms of the agreement, the Company must issue 100,000 common shares of the Company; and make total cash payments of US$480,000 within a four-year period. The Company has made total cash payments of US$40,000 and has issued 100,000 shares with a fair value of $45,000 during the year ended December 31, 2015. The optionee retains a 2% net smelter return, which can be purchased by the Company for US$750,000 for each percentile.

During the year ended December 31, 2015, the Company announced that it had entered into an option agreement through its wholly owned Mexican subsidiary, MJM, with Oro de Altar ("ODA") now a wholly owned Mexican subsidiary of Alamos Gold (formerly AuRico Gold Inc.). The option allows ODA to earn up to 100% interest in the San Diego property. The terms of the agreement allow ODA to earn a 65% interest by spending an aggregate total US$3 million in exploration expenditures by April 8, 2018, and to pay an aggregate total of US$480,000 by December 10, 2017. Upon earning the initial 65% interest, ODA will have the right to acquire a 100% interest by paying the Company US$8.00 per gold or gold equivalent ounce of resource based on the preparation of a NI 43-101 compliant resource statement, which must be completed no later than 90 days after April 8, 2018. On acquisition by ODA of 100% interest, MJM will receive a 2.5% net smelter royalty. If ODA does not acquire the remaining 35%, a one-time cash payment to MJM of US$250,000 becomes payable and a joint venture will be formed to further develop the project. Subsequent to June 30, 2016, the Company received notice of termination from Alamos Gold.

Unless specifically stated otherwise, all Sonora Concessions have been staked by the Company directly.

Cervantes – Sonora State, Mexico

On July 25, 2015, the Company entered into an option agreement with Aztec Metals Corp. (“Aztec”), whereby the Company granted Aztec the right to earn up to a 100% interest in the Cervantes Gold/Copper project. The terms of the agreement allow Aztec to earn a 65% interest by: spending an aggregate total of US$1.5 million in exploration expenditures by July 25, 2019; paying an aggregate total of US$150,000 in staged payments to the Company by July 25, 2019; and issuing an aggregated total of 1,000,000 common shares in staged payments on each anniversary to the Company, with final issuance payable 60 days after the fourth anniversary.

Upon earning the initial 65% interest and within 60 days of such date, Aztec will have the right to elect and acquire the remaining 35% interest by completing a preliminary economic assessment report ("Scoping Study") by the fifth anniversary date (July 25, 2020), paying US$5.00 per gold or gold equivalent ounce of estimated recoverable, payable gold or gold equivalent ounce of the contained metal for the measured, indicated and inferred resources based on the Scoping Study. On acquisition by Aztec of 100% interest, Kootenay will receive a 2.5% net smelter royalty. If Aztec decide not to exercise the Second Option, a joint venture will be formed to develop the project.

7 Mineral Properties *(continued)***:**

Copley Property – Nechako Plateau, British Columbia

On February 23, 2010, the Company entered into an option agreement whereby it was granted the right to earn a 100% undivided interest in 10 mineral tenures totaling approximately 2,927 hectares collectively named as the Copley Property. Under the agreement the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has issued 130,000 shares with a fair value of $84,400, including 40,000 issued with a fair value of $18,000 during the year ended December 31, 2015. The Company has made total cash payments per the agreement of $80,000, including a final cash payment of $25,000 paid during the year ended December 31, 2015.

Silver Fox - Southern British Columbia

On September 29, 2015, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta plc (“Antofagasta”), whereby the Company granted Antofagasta the option to earn up to an 80% interest in the Silver Fox property located in South Eastern British Columbia. The terms of the agreement grant Antofagasta the right to earn a 65% interest ("First Option") by funding or incurring an aggregate total of US$2.5 million (the "First Option Expenditures") in exploration expenditures on or before September 29, 2021 (amended from September 29, 2019), of which US$125,000 was received on account for exploration disbursements during the year ended December 31, 2015. Antofagasta has the right to accelerate the First Option Expenditures. Antofagasta will have the right to acquire a further 15% interest ("Second Option") by incurring an additional aggregate total US$1.65 million in exploration expenditures within two years of the First Option exercise date. If Antofagasta decides not to exercise the Second Option, a joint venture based on a 65/35% interest will form under the Agreement in relation to the property.

Under the terms of the Underlying Option Agreement, the Company can acquire a 100% interest in Silver Fox by issuing 100,000 common shares to Kennedy by July 3, 2018 (the "Underlying Option") of which 25,000 common shares have been issued with a fair value of $7,750, subject only to a 2.0% net smelter returns royalty in favour of Kennedy (the "Underlying Royalty"). The Underlying Royalty is subject to a purchase right in favour of the Company, exercisable by the Company by paying $500,000 for each 0.5% of the Underlying Royalty. Under the terms of the Agreement, the Company is obligated to exercise the Underlying Option prior to the exercise by Antofagasta of the First Option.

The Fox and Two Times Fred Properties – Nechako Plateau, British Columbia

On July 8, 2014, the Company entered into a letter agreement with Theia Resources Ltd. (“Theia”), whereby the Company granted the right to Theia to earn a 60% undivided interest in the Fox and Two Times Fred Properties (the “Properties”). Under the terms of the agreement, Theia must issue an aggregate total of 750,000 common shares of Theia to the Company; and finance an aggregate $2,500,000 of exploration expenditures on the Properties within a five-year period.

The Two Times Fred property is being optioned by the Company effective July 1, 2014, pursuant to a grubstake agreement. To maintain its option, the Company must make total cash payments of $80,000; issue an aggregate total of 230,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. During the year ended December 31, 2015, the Company made payments totaling $20,000 and issued 75,000 common shares with a fair value of $21,150.

7 Mineral Properties *(continued)***:**

During the year ended December 31, 2011, the Company optioned the Fox property pursuant to a grubstake agreement. To maintain its option, the Company must make total cash payments of $80,000; issue an aggregate total of 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. The Company has made cash payments of $80,000, including a final cash payment of $25,000 paid during the year ended December 31, 2015 and issued 95,000 shares with a fair value of $80,350. Of the total 95,000 shares issued, 30,000 shares with a fair value of $13,500 were issued during the year ended December 31, 2015.

During the year ended December 31, 2015, the Company announced that it had exercised its option under the Kennedy grubstake agreement, namely Spikes Vacation and Walter the Water Buffalo. The grubstake agreement requires the issuance of 100,000 shares over three years with 25,000 shares issuable on TSXV approval. The remainder of the share payments are due on the next 3 anniversaries of the option.

The agreement also allows for an underlying 2% NSR, which can be purchased by the Company for $500,000 per each one-half (0.5%) percentile. During the year ended December 31, 2015, the Company issued 50,000 common shares with a fair value of $15,500.

Property Investigation and Impairment

During the six months ended June 30, 2016, the Company expended $185,495 (2015 - $29,099) related to other property investigation expense and recorded an impairment to mineral properties of $25,837 (2015 - $17,343), which is related to mineral properties located in both Mexico and Canada. Once the Company has made its evaluations, the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

Title to Mineral Property Interests

Although the Company has taken steps to verify the 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 title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

8 Share Capital and Reserves:

Authorized:
The authorized share capital of the Company is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting of only common shares are fully paid.

During the six months ended June 30, 2016, the Company completed a non-brokered private placement which was fully subscribed Pan American Silver for net proceeds of $3,422,048. Additionally, the Company issued 9,629,091 shares with a fair value of $2,648,000 to Coeur Capital for the acquisition of the NSR held on the La Cigarra silver project (see Note 7) and issued 53,909,261 shares and 23,103,969 share purchase warrants upon acquisition of Northair (see Note 4).

Subsequent to June 30, 2016, the Company closed private placement for gross proceeds of $6,029,316 (see Subsequent Events - Note 18).

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)*:

Options and Warrants:
Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2014	**16,421,833**	**$ 0.84**	**5,142,000**	**$ 0.89**
Granted	**6,870,714**	**0.57**	**2,485,000**	**0.35**
Expired/cancelled	**(3,125,000)**	**1.08**	**(305,000)**	**0.81**
Outstanding, December 31, 2015	**20,167,547**	**$0.71**	**7,322,000**	**$ 0.71**
Expired/cancelled	**-**	**-**	**(750,000)**	**1.00**
Granted	**23,103,969**	**$0.55**	**-**	**-**
Assumed upon Northair transaction	**13,998,250**	**$0.71**	**3,391,000**	**$0.51**
Outstanding, June 30, 2016	**57,269,766**	**$0.65**	**9,963,000**	**$ 0.63**

Warrants
As at June 30, 2016, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
5,443,500	0.55	July 18, 2016
1,803,333	0.55	August 18, 2016
3,430,000	1.30	October 25, 2016
500,000	1.30	October 30, 2016
2,120,000	0.60	December 23, 2016
2,388,214	0.60	February 2, 2017
3,586,500	0.55	August 10, 2017
96,000	0.55	August 10, 2017
800,000	0.55	August 26, 2017
23,103,969	0.55	April 22, 2021
13,998,250	0.71	September 5, 2017
57,269,766		

The weighted average remaining life of the outstanding warrants is 2.39 years (2015 – 1.02 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in contributed surplus until exercised, at which time they are transferred into share capital. The Company assumed 13,998,250 warrants which were outstanding to Northair shareholders at the acquisition ration of 0.35:1 existing warrant outstanding.

See Note 18 Subsequent Events

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

During the year ended December 31, 2015, the Company completed a non-brokered private placement for gross proceeds of $1,315,950 by issuing a total of 4,386,500 units at a purchase price of $0.30 per unit. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.55. The first tranche of 3,586,500 units closed August 11, 2015 and the final tranche closed August 26, 2015, with the applicable warrants expiring on August 10, 2017 and August 26, 2017, respectively. The Company paid total share issuance costs of $15,540, cash finder's fees to arm's length parties totalling $13,710 and issued 96,000 finders units (the "Finders Units"). The Finders Units consist of one common share and one non-transferable common share purchase warrant, expiring August 10, 2017.

The following assumptions were used for the Black-Scholes valuation of warrants issued and amended during 2016 and 2015:

	2016	2015
Risk-free interest rate	**0.74%**	**0.39% – 0.54%**
Expected life of warrants	**60 months**	**12 - 24 months**
Fair value per warrant issued	**$0.219**	**$0.019 - $0.118**
Annualized volatility	**82%**	**87% - 101%**
Dividend rate	**0.00%**	**0.00%**

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

Options

The Company has adopted an incentive stock option plan under the rules of the TSXV pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and generally vest 25% in specified increments. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSXV, shares issued on exercise of options are restricted from trading during the four month period subsequent to the date of grant.

For the six months ended June 30, 2016, the Company did not grant any share purchase options, however they assumed the obligations related to the pre-existing options granted under Northair.

During the year ended December 31, 2015, the Company granted a total of 2,485,000 share purchase options to officers, directors, employees and consultants. Each share purchase option is exercisable for a period of 5 years from grant date at an exercise price of $0.35. The share purchase options vest in increments from the grant date and will be fully vested in 18 months.

During the three and six months ended June 30, 2016, share based payments totalling $ 20,063 (2015 - $110,348) and $57,682 (2015 - $311,916) respectively were expensed. As at June 30, 2016, 9,341,750 options (2015 – 5,763,250) with a weighted average exercise price of $0.65 per option (2015 - $0.84) were fully vested and exercisable. During the six months ended June 30, 2016, 750,000 (2015 – nil) options expired unexercised.

(Expressed in Canadian dollars)

8 Share Capital and Reserves *(continued)***:**

As at June 30, 2016, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

	Number of Shares	Exercise Price	Expiry Date
	200,000	1.20	December 11, 2016
	2,035,000	1.05	November 26, 2017
	1,852,000	0.66	September 18, 2018
	183,750	2.03	May 19, 2016(1)
	105,000	1.41	July 18, 2016(1)
	61,250	0.71	September 28, 2016(1)
	5,250	0.69	December 15, 2016(1)
	350,000	0.80	June 13, 2017(1)
	52,500	0.83	January 10, 2018(1)
	440,500	0.63	March 4, 2018(1)
	444,500	0.43	May 30, 2019(1)
	1,050,000	0.47	September 8, 2019(1)
	350,000	0.23	December 17, 2019(1)
	348,250	0.23	January 26, 2020(1)
	2,485,000	0.35	February 23, 2020
	9,963,000		

(1)Assumed from the Northair acquisition.

The weighted average remaining life of the options is 2.69 years (2015 – 3.13 years). For stock options granted to employees, officers, directors and consultants, share based payment expense is measured at fair value and recognized over the vesting period from the date of grant. The fair value of stock options granted during the year ended December 31, 2015 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2015
Risk-free interest rate	**0.74%**
Expected life of options	**5 years**
Fair value per option granted	**$0.194**
Annualized volatility	**78%**
Forfeiture rate	**0.00%**
Dividend rate	**0.00%**

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

Earnings per share

The calculation of basic loss per share for the six months ended June 30, 2016 was based on the loss of $1,748,384 (2015 - $1,367,122) and the weighted average number of common shares outstanding of 95,973,118 (2015 – 74,282,141) respectively. The Company does not have any instruments that would give rise to a dilution effect as of June 30, 2016. The Company has 9,963,000 options and 57,269,766 warrants that are anti-dilutive and thus, not included in diluted loss per share as of June 30, 2016.

(Expressed in Canadian dollars)

9 Receivables:

The Company's receivables are as follows:

	June 30, 2016	December 31, 2015
IVA/GST receivable	**$ 1,249,415**	$ 219,530
Receivable	**186,309**	154,692
Advances receivable	**29,034**	12,542
Total	**$ 1,464,758**	$ 386,764

10 Income Taxes:

As at December 31, 2015, the Company has non capital loss carryforwards of approximately $17,529,684 (2014: $15,126,797) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canada	
	2015
2026	405,178
2027	630,148
2028	1,176,346
2029	2,124,656
2030	2,320,591
2031	2,403,406
2032	2,409,531
2033	2,158,414
2034	1,882,317
2034	2,019,097
TOTAL	17,529,684

In addition, the Company has capital loss of $795,087 (2014: $795,087), which may be carryforward indefinitely and apply to reduce future capital gains.

The Company has net operating loss carryforwards of approximately $2,073,703 (2014: $23,268,657) which may be carried forward to apply against future year income tax for Mexican tax purposes:

Mexico	
	2015
2024	1,094,081
2025	979,622
TOTAL	2,073,703

(Expressed in Canadian dollars)

11 Supplemental Disclosure of Cash and Non-Cash Activities:

The following transactions incurred during the period did not include cash:

		2016	2015
Acquisition of shares as proceeds from option of mineral property	**$**	**-**	(24,000)
Issuance of share capital for acquisition mineral property interests		**8,400**	-
Shares received as proceeds on sale of mineral property		**-**	(230,000)
Shares issued on acquisition of Northair		**20,215,973**	-
Shares issued for the acquisition of NSR		**2,648,000**	-
Receivable and advances for mineral property costs		**12,754**	(25,011)
Mineral property costs included in accounts payable		**34,513**	(3,275)

12 Related Party Transactions and Balances:

Except as disclosed elsewhere in these consolidated financial statements the following related party transactions were incurred in the normal course of business and were measured at the exchange amount:

		2016		2015
Management fees charged by companies controlled by a director and/or officers	**$**	**251,500,**	$	251,500
Consulting, administrative and geological fees charged by a company with common officers		**60,000**		60,000

The Company has entered into a consulting agreement with Makwa Exploration Ltd. for the services of James McDonald to act as the Company's President and CEO, and with Manly Capital Corp. for the services of Kenneth Berry to act as the Company's Chairman. The base monthly fee is $15,000 under each agreement. The monthly payments have been voluntarily adjusted to $7,500 for Makwa and $10,000 for Manly each until further notice, with a deferred liability recorded in accrued payables. The consulting agreements were effective as of January 1, 2008 and extend in increments of 24 months, until terminated.

Effective September 1, 2008, the Company entered into an administrative services agreement with Touchstone Capital Corp. a private company indirectly related to two common officers of the Company. Touchstone provides services to the Company including assisting in professional analysis and planning of exploration programs, promotional materials; providing access to secretarial services and providing such other additional instructions and directions as the Company may require. For the six months ended June 30, 2016, the Company incurred expenses of $60,000 (2015 - $60,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at June 30, 2016 is $334,000 (2015 - $154,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at June 30, 2016 is $1,239,657 (2015 - $1,181,621) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at June 30, 2016 is $123,852 (2015 - $67,028) from companies who have common directors or officers.

d) Included in accounts payable as at June 30, 2016 is $129,381 (2015 - $179,343) to companies who have common directors or officers.

e) Included in accrued payables as at June 30, 2016 is $125,000 (2015 - $nil) for consulting fees charged by certain directors and officers of the Company.

f) For the six months ended June 30, 2016, the Company incurred $42,000 (2015 - $33,000) for compensation to directors. As at June 30, 2016, $42,000 (2015 - $33,000) is held in accounts payable and accrued liabilities.

(Expressed in Canadian dollars)

13 Contingent Liabilities:

The Company's mineral properties are affected by the laws and regulations concerning environmental protection that exist in the various jurisdictions. It is not possible to estimate the future impact on operating results, if any, as a result of, future changes in regulations or developments.

14 Segmented Information:

The Company has one reportable operating segment, being the acquisition and exploration and future development of mineral properties.

The Company's current assets, non-current assets, current liabilities, and mineral properties and deferred costs by geographic location are as follows:

	June 30, 2016	December 31, 2015
Canada:		
Current asset	**$ 4,373,022**	$ 1,137,756
Mineral property	**1,431,152**	1,086,048
Other Non-current asset	**147,294**	155,721
Current liability	**(1,146,260)**	(456,359)
	$ 4,805,208	$ 1,923,166

	June 30, 2016	December 31, 2015
Mexico:		
Current asset	**$ 1,409,691**	$ 332,012
Mineral property	**64,204,164**	37,200,654
Other Non-current asset	**907,982**	124,397
Current liability	**(21,564)**	(31,674)
	$ 66,500,273	$ 37,625,389

15 Commitments:

The Company entered into a contract for office rent, which commences January 1, 2016 and expires July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at June 30, 2016:

2016	13,950
2017	27,900
2018	16,275
	$ 58,125

The Company entered into a contract for additional office rent, which commenced August 1, 2013 and expires July 31, 2018. During the year ended December 31, 2015, the Company subleased its additional office lease, reducing its monthly commitment from $2,967 to $339 per month until July 31, 2018. The following table summarizes the Company's total annual obligations under this agreement as at June 30, 2016:

2016	2,034
2017	4,068
2018	2,373
	$ 8,475

16 Financial Instruments and Financial Risk Management:

The Company's financial instruments include cash and cash equivalents, receivable and advances, marketable securities, advances and deposits, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity and due to the insignificant carrying values of long term financial instruments except for marketable securities, which are measured at fair value through other comprehensive income at each reporting period end.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's accounts receivable relates to receivables from exploration partners who are earning a right to the Company's property via earn-in option agreements, Goods and Services Tax input tax credits and IVA credits (Mexican Value Added Tax refunds) from the Mexican Government. Accordingly, the Company views credit risk on accounts receivable as minimal.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through private equity placements.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through future equity contributions.

As at June 30, 2016, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year and termination benefit payments, payable up to a further 30 months..

(c) Market risk:

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

16 Financial Instruments and Financial Risk Management *(continued)*:

(i) Currency risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian dollar, the United States dollar and the Mexican Peso. The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso. The Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency with a predominate balance held in Canadian Dollars. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

The balances denominated in foreign currency are as follows:

	June 30, 2016	December 31, 2015
	US$	US$
Cash	**988,349**	189,295
Trade accounts payable and accrued liabilities	**73,121**	14,635
	Mexican Peso	Mexican Peso
Cash	**2,334,076**	1,524,185
Receivables and advances	**14,055,304**	2,188,978
Trade accounts payable and accrued liabilities	**294,250**	376,384

The Company has completed a sensitivity analysis to estimate the impact of the change in the foreign exchange rates on net loss for the period. The result of the sensitivity analysis shows a change in +/- 10% in the Mexican Peso exchange rate could have an impact of approximately +/- $114,200 on the Company's net loss. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The Company is exposed to the price volatilities for precious and base metals that could significantly impact its future operating cash flow. As part of its routine activities, management is closely monitoring the trend of international metal prices.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and cash equivalents is limited because of their short-term investment nature. A variable rate of interest is earned on cash and cash equivalents, changes in market interest rates at the year-end would not have a material impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

16 Financial Instruments and Financial Risk Management *(continued)*:

d) Fair value of financial instruments

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

June 30, 2016		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	532,640	$	-	$	-	$	532.640
Cash and cash equivalents	$	3,536,195	$	-	$	-	$	3.536.195
December 31, 2015		Level 1		Level 2		Level 3		Total
Marketable securities	$	238,890	$	-	$	-	$	238,890
Cash and cash equivalents	$	730,682	$	-	$	-	$	730,682

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no change between Levels during the period.

17 Capital Management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the development of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure.

The Company's capital structure includes working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold cash in interest bearing, Schedule A bank accounts and highly liquid short-term interest bearing investments, with maturities of one year or less which can be liquidated at any time without penalties.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the three and six months ended June 30, 2016.

18 Subsequent Events:

On July 28, 2016, the Company closed its previously announced brokered private placement (the "Offering") with Haywood Securities Inc. (the "Agent"). An aggregate of 12,937,500 units (the "Units"), including 675,000 Units issued as a result of the exercise in full of the Agents' over-allotment option, were sold under the Offering at a price of $0.40 per Unit (the "Offering Price") for gross proceeds to the Company of $5,175,000. In addition, the Company concurrently closed on a non-brokered private placement of 2,135,790 Units at the Offering Price, which included participation by Pan American Silver Corp. to maintain its pro-rata ownership position, raising gross proceeds of $854,316. The aggregate total gross proceeds of the Offering and the non-brokered private placement are $6,029,316.

Each Unit consisted of one common share and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder to acquire one common share (a "Warrant Share") at an exercise price per Warrant Share of $0.55 until April 21, 2021. The Warrants have identical terms to the 23,103,969 listed warrants (the "Listed Warrants") of the Company currently outstanding and trading under the ticker 'TSXV: KTN.WT'. The net proceeds of the Offering will be used to fund the exploration and development of the Company's La Cigarra project in Mexico and for general working capital purposes.

Subsequent to June 30, 2016, the Company amended the expiration date of 5,443,500 share purchase warrants expiring on July 18, 2016 and 1,803,333 share purchase warrants expiring on August 18, 2016 that were issued pursuant to a private placement closed on July 18, 2014 and August 18, 2014, respectively. The expiry date of the warrants was extended for an additional six months, with 5,443,500 share purchase warrants expiring on January 18, 2017 and 1,803,333 share purchase warrants expiring on February 17, 2017. In all other respects, the terms of the warrants will remain unchanged.