KOOTENAY SILVER INC.

YEAR ENDED DECEMBER 31, 2014
MANAGEMENT DISCUSSION AND ANALYSIS

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DATE

This Management Discussion & Analysis ("MD&A") of Kootenay Silver Inc. (the "Company" or "Kootenay") was prepared by management as at April 29, 2015, and was reviewed and approved by the Board of Directors of Kootenay. The following discussion of performance, financial condition and future prospects should be read in conjunction with the annual audited consolidated financial statements for the years ended December 31, 2014 and 2013, and notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The information provided herein supplements but does not form part of the financial statements. This discussion covers the year ended December 31, 2014, and the subsequent period up to the date of issue of this MD&A. Additional information relating to the Company is available at www.sedar.com.

The Company has prepared this MD&A following the requirements of National Instrument 51-102 ("NI-51-102"). These statements are filed with the relevant regulatory authorities in Canada. All currency amounts are expressed in Canadian dollars unless otherwise noted.

Unless otherwise indicated the geological disclosure contained within this MD&A has been reviewed and verified by Kootenay's CEO, James McDonald, P.Geo (a qualified person for the purpose of National Instrument 43-101 ("NI 43-101"), Standards of Disclosure for Mineral Projects). Mr. McDonald is also a director of Kootenay.

Forward-Looking Information

This report contains forward-looking statements or forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995, and applicable Canadian securities laws. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimated," "potential," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are statements concerning the Company's current beliefs, plans and expectations about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, the risks that: (i) any of the assumptions in the resource estimates turn out to be incorrect, incomplete, or flawed in any respect; (ii) the methodologies and models used to prepare the resource estimates either underestimate or overestimate the resources due to hidden or unknown conditions, (iii) operations are disrupted or suspended due to acts of god, internal conflicts in the country of Mexico, unforeseen government actions or other events; (iv) the Company experiences the loss of key personnel; (v) the Company's mine operations are adversely affected by other political or military, or terrorist activities; (vi) the Company becomes involved in any material disputes with any of its key business partners, lenders, suppliers or customers; or (vii) the Company is subjected to any hostile takeover or other unsolicited attempts to acquire control of the Company. Other factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Other risks are more fully described under the heading "RISKS AND UNCERTAINTIES" below. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future, except as required by law. For the reasons set forth above, investors should not place undue reliance on the Company's forward-looking statements.

DESCRIPTION OF BUSINESS

The Company is an exploration stage mining company involved in the exploration of mineral properties in Mexico and Canada. The Company's main business objective is identifying mineralized deposits economically worthy of subsequent development, mining or sale. The Company is a Tier One listed issuer on the TSX Venture Exchange ("TSX-V") and its common shares trade under the symbol 'KTN'. The core management and technical team are proven professionals, with extensive international experience in all aspects of mineral exploration, operations and venture capital markets.

OVERVIEW OF PERFORMANCE

PROMONTORIO SILVER PROJECT

The Company's advanced project is the Promontorio Silver Project ("Promontorio") located in Sonora, Mexico, which encompasses the former Promontorio Silver Mine. On May 14, 2013, the Company announced an updated resource estimate prepared by SRK Consulting (U.S.) Inc. of Lakewood, Colorado ("SRK") incorporating the gold content contained into the mineral resources of Promontorio, due to new metallurgical data and information which supported the possible recovery of gold. This updated resource estimate does not incorporate any drilling completed since the previous resource estimate announced August 21, 2012, which was based on 65,092 metres of drilling.

The open pit mineral resources for Promontorio are comprised of an estimated 44,504,000 tonnes classified as Measured and Indicated Mineral Resources grading an average of 64.32 grams per tonne ("gpt") silver equivalent ("AgEq") containing an estimated 92,035,000 AgEq ounces, with an additional 14,564,000 tonnes classified as Inferred Mineral Resources grading an average of 51.95 gpt AgEq containing an estimated 24,326,000 AgEq ounces (see Resource Estimate – for specific grades of metals included). This resource is stated above a 20.00 gpt AgEq cut-off grade and is contained within an optimized Whittle pit shell (using Whittle™ software). Underground mineral resources are approximately 215,000 tonnes classified as Measured and Indicated Mineral Resources grading an average of 56.96 gpt AgEq, with an additional 1,265,000 tonnes classified as Inferred Mineral Resources grading an average of 61.17 gpt AgEq. This resource is stated above a 45.00 gpt AgEq cut-off grade to reflect the higher mining costs expected to be associated with underground production. An updated NI 43-101 technical report on Promontorio titled "NI 43-101 Technical Report on Resources, Promontorio, Mexico" prepared by SRK Consulting (U.S.), Inc. with an effective date of March 31, 2013 was filed on SEDAR on June 7, 2013.

The Company acquired Promontorio in 2006, and initial drilling commenced in 2007. Step-out drilling on geophysical, geological and prospecting targets at Promontorio at this time totals 315 holes for a sum of approximately 91,300 metres. Drill results reported on Promontorio can be found on the Company's website.

The Company has completed and announced a total of 89 drill holes for approximately 23,200 metres from its phase V drill and resource expansion program on Promontorio, with an approximate cost of $4,600,000. The phase V program focused on systematically expanding the known silver resource, beginning with the unconfined portions of the higher-grade resource located in the Pit and NE zones, as defined by previous drilling. Multiple core holes have been drilled to offset significant intercepts located along strike and between the two primary resource zones the Pit and Northeast zones. The Company will focus the next drilling along the intervening area between the Pit and Northeast Zones, the Central Breccia Zone, with particular attention on the high grade areas to test for continuity and tonnage potential.

The Pit Zone has been closed off to the west and remains open down plunge to the northeast while the Northeast Zone is open to the east and down plunge. The intervening area of the Central Breccia Zone contains mineralization along its length and requires additional drilling to determine grade and continuity.

The Company has evaluated 2,900 line kilometres of airborne geophysics identifying similar EM signatures to those over the Main Pit and Northeast zones some of which are associated with mineralization on surface. In addition ground work has identified separate mineralized zones of which two are currently being prepared for future drilling.

The phase V drill program on Promontorio, focused on the following components:

- Drilling focused on expanding the known resource to the SW and NE and definition of high-grade zones;
- Initial drill testing of breccia targets that sit outside of known silver resource;
- Continuing baseline studies to further advance the permitting process;
- Continuing metallurgical testing to further define metal recoveries; and
- Monitoring wells for hydrologic measurements needed for pit design and process water assessment.

It is anticipated following drill testing for a high grade core along the Central Breccia – Northeast Zone that this work will be followed by an updated resource estimate and a preliminary economic assessment if results warrant them.

Recent regional exploration within the Promontorio concession block has resulted in the discovery of numerous anomalous to highly anomalous gold/silver/polymetallic mineralized systems that form the 25 x 15 km northwest trending "Promontorio Mineral Belt". As announced on February 25, 2014, the results of this exploration program document the Promontorio Diatreme breccias belong to a mineral event that is part of a regional mineral exploration belt.

The La Negra Discovery

The La Negra discovery is contained in the claim block of Promontorio 6.5 km north of the current Promontorio resource and is a hydrothermal-diatreme breccia exposed over a 100 to 150 x 500 metre area.

An initial Phase I drilling program commenced in August 2014 and was completed during November 2014 with a cost of approximately US$500,000. A total of 25 drill holes were completed, with a total of 3,173 metres drilled. The results reported the presence of significant grades of widespread silver mineralization extending from surface to depth, confirming a substantial new silver discovery and confirming earlier trenching results.

To view results from Phase I drilling visit: La Negra Phase I Drilling. The full news releases can be found on the Company's website, dated October 15, November 26, and December 3, 2014.

Result highlights include:

LN 01-14 *Containing from surface;*

- 110 gpt Ag over 41 metres including
- 223 gpt Ag over 13 metres

LN 02-14 *Containing from surface;*

- 141 gpt Ag over 50 metres including
- 213 gpt Ag over 28 metres and
- 323 gpt Ag over 15 metres

LN 03-14 *Bottomed in mineralized breccia in a vertical hole from surface;*

- 83 gpt Ag over 144 metres including
- 98 gpt Ag over 103 metres and
- 196 gpt Ag over 25 metres

LN 04-14 *Containing from surface;*

- 93 gpt Ag over 92 metres including;
- 149 gpt Ag over 20 metres from surface and
- 146 gpt Ag over 31 metres from 43 metre depth

LN 05-14 *Containing from surface;*

- 91 gpt Ag over 119 metres including
- 182 gpt Ag over 40 metres
- 368 gpt Ag over 14 metres

LN 06-14 *Containing from surface and bottomed in mineralized breccia;*

- 93 gpt Ag over 98 metres including
- 168 gpt Ag over 21 metres including
- 214 gpt Ag over 14 metres

LN 07-14 *Containing from surface;*

- 132 gpt Ag over 59 metres including
- 150 gpt Ag over 43 metres and
- 185 gpt Ag over 17 metres

LN 08-14 *13 metres from surface;*

- 92 gpt Ag over 49 metres including
- 251 gpt Ag over 34 metres

LN 10-14 *5 metres from surface;*

- 87 gpt Ag over 35 metres including
- 136 gpt Ag over 21 metres

LN 13-14 *Containing from surface;*

- 61 gpt Ag over 140 metres including
- 79 gpt Ag over 47 metres
- 355 gpt Ag over 8 metres

LN 14-14 *Containing from surface;*

- 179 gpt Ag over 33 metres including
- 412 gpt Ag over 11 metres

LN 21-14 *Containing from surface and bottomed in mineralized breccia;*

- 156 gpt Ag over 200 metres including
- 1337 gpt Ag over 6 metres (highest interval to date)
- 442 gpt Ag over the bottom 50 metres including
- 492 gpt Ag over 17 metres (bottoming)

LN 22-14 *Containing from surface;*

- 265 gpt Ag over 34 metres including
- 467 gpt Ag over 18 metres

LN 23-14 *Containing from surface;*

- 250 gpt Ag over 30 metres including
- 459 gpt Ag over 13 metres

LN 24-14 *Containing from surface on section with LN 22 and 23-14;*

- 93 gpt Ag over 76 metres including
- 398 gpt Ag over 12 metres

Drilling in the Phase I program was conducted in widely spaced fences along 400 of 500 metres of La Negra's length to provide information on the sub-surface grade, continuity and geometry of the mineralized Breccia system. Current holes were broadly spaced as single holes or fences of holes from the same platforms in 115 to 75 metre spacings along strike. Extensive zones of breccia and stockwork were encountered along the strike length and dips seem to vary from steep northerly dips to moderate southerly dips.

Subsequent to December 31, 2014, the Company commenced its La Negra Phase II drill program, which is contemplated to drill up to 30 holes over approximately 3,000 metres. To the date of this MD&A, the Company has reported the first six drill holes, all of which intercepted significant widths and grades of silver mineralization. To view the drill plan outlining the location of the planned La Negra drilling visit: La Negra Drill Plan Map.

Highlights include:

LN 31-15

- 76 gpt Ag over 138 metres *starting from surface includes three separate higher grade intervals;*
- 160 gpt Ag over 12 metres,
- 146 gpt Ag over 37 metres with 1 metre of 3040 gpt Ag and
- 115 gpt Ag over 23 metres

LN 30-15

- 120 gpt Ag over 60 metres *from surface includes;*
- 185 gpt Ag over 26 metres and
- 539 gpt Ag over 7 metres

LN 29-15

- 72 gpt Ag over 17 metres from 10 metre hole depth

LN 28-15

- 110 gpt Ag over 84 metres includes;
- 300 gpt Ag over 8 metres and
- 179 gpt Ag over 18 metres

LN 27-15

- 96 gpt Ag over 52 metres includes;
- 183 gpt Ag over 25 metres
- 357 gpt Ag over 8 metres with
- 963 gpt Ag over 2 metres and 322 gpt Ag over 5 metres

Previous Surface Trenching & Sampling Program Confirms Widespread Silver Mineralization

Prior to the commencement of drilling, an extensive trenching and surface sampling program was conducted on La Negra and from bedrock exposure shows silver mineralization is remarkably consistent throughout the breccia's exposed breadth and length. The average of all samples taken on surface is 65 gpt silver from 50 three-metre chip samples in trenches, 19 two-metre square chip panels and 31 grab samples. (See news releases from May 28 and June 5, 2014 for more details). Previous airborne geophysics was effective in mapping the southern contact of the breccia and indicates the breccia could exceed the aerial extent of the visible bedrock exposure.

Highlights from Hand Trenching and Chip Sampling Program:

- 98.9 gpt Ag over 21 metres in Trench 1
- 59.1 gpt Ag over 21 metres in Trench 5
- 42.1 gpt Ag over 27 metres in Trench 2
- 39.2 gpt Ag over 30 metres in Trench 3
- 33.5 gpt Ag over 30 metres in Trench 6
- 16.1 gpt Ag over 21 metres in Trench 4

Prior to the trenching program, a total of 77 chip samples were collected: 56 returned values greater than 10 gpt silver of which 35 returned greater than 20 gpt silver. Nineteen chip samples (random chips taken within a 2 x 2 metre area) averaged 107 gpt silver with a single high of 512 gpt and 15 greater than 20 gpt. All 50 samples averaged 77 gpt Ag. Gold values are low within the breccias but highly anomalous in small veins peripheral to the breccias with values from background to 8.2, 4.3, 3.2 and 2.0 gpt gold obtained from grab samples.

SUBSEQUENT EVENTS

On February 2, 2015, the Company closed the second and final tranche of its previously announced non-brokered private placement and raised gross proceeds of $835,875 by issuing a total of 2,388,214 units at a purchase price of $0.35 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 $0.60 and expires February 2, 2017. All securities issued in connection with the private placement are subject to a four-month hold period from the date of issue. The Company raised gross aggregate total proceeds of $1,577,875 with an aggregate total of 4,508,214 units issued. The initial tranche of the placement closed on December 23, 2014, with an issuance of 2,120,000 units for gross proceeds of $742,000.

On February 23, 2015, the Company announced the issuance of an aggregate total of 2,485,000 incentive stock options, granted to directors, officers, employees and consultants of the Company. The incentive stock options expire on February 24, 2020 and have an exercise price of $0.35.

See disclosure under 'The La Negra Discovery'.

Portfolio of Mineral Properties

The Company has aggressively pursued the advancement of its Promontorio Project as well as establishing Generative Exploration Teams in Northwest Mexico and British Columbia, Canada. The Company continues to seek joint venture partners to option its generative exploration projects, who by spending exploration dollars and issuing share and/or cash payments to the Company, obtain a right to an earn-in interest, or explored by the Company directly. During the year ended December 31, 2014, the Company received notice of termination from Orestone Minerals Corp. related to the option agreement on the Estrella de Oro property and subsequent to the year ended December 31, 2014, received notice of termination from Theia Resources Ltd. related to the Rosetta property option agreement. The Company currently has two exploration properties namely the Fox and Two Times Fred located in the Nechako region of British Columbia, which are optioned out to a third party.

Promontorio Silver Project – Resource Estimate

On May 14, 2013, the Company announced the results of an updated resource estimate prepared by SRK incorporating the gold content contained into the mineral resources of the Promontorio Silver Project, due to new metallurgical data and information which supports the potential recovery of gold (see February 28, 2013 news release). The updated Measured and Indicated Resource contains an estimated 44,504,000 tonnes containing an estimated 92,035,000 oz AgEq grading 64.32 gpt AgEq with another 24,326,000 oz AgEq grading 51.95 gpt AgEq categorized as Inferred, as summarized the table below:

Resource Statement for the Promontorio Deposit, Sonora State, Mexico: Effective Date March 31, 2013*

	20 gpt AgEQ Cut-Off	**Tonnes (000's)**	**Avg AgEq (gpt)**	**Avg Ag (gpt)**	**Avg Au (gpt)**	**Avg Pb (%)**	**Avg Zn (%)**	**AgEq Oz (000's)**	**Ag Oz (000's)**	**Au Oz (000's)**	**Pb lbs (000's)**	**Zn lbs (000's)**
Pit-Constrained	Measured	10,289	74.79	32.69	0.40	0.46	0.55	24,741	10,814	134	105,328	123,715
	Indicated	34,215	61.18	26.30	0.34	0.38	0.45	67,294	28,926	373	287,579	335,904
	M+I	**44,504**	**64.32**	**27.77**	**0.35**	**0.40**	**0.47**	**92,035**	**39,740**	**506**	**392,907**	**459,619**
	Inferred	14,564	51.95	24.95	0.28	0.28	0.31	24,326	11,683	132	89,430	98,462

	45 gpt AgEQ Cut-Off	**Tonnes (000's)**	**Avg AgEq (gpt)**	**Avg Ag (gpt)**	**Avg Au (gpt)**	**Avg Pb (%)**	**Avg Zn (%)**	**AgEq Oz (000's)**	**Ag Oz (000's)**	**Au Oz (000's)**	**Pb lbs (000's)**	**Zn lbs (000's)**
Underground Potential	Measured	3	62.27	25.12	0.32	0.37	0.63	6	2	0	23	40
	Indicated	212	56.88	22.86	0.28	0.40	0.55	387	156	2	1,889	2,551
	M+I	**215**	**56.96**	**22.89**	**0.28**	**0.40**	**0.55**	**393**	**158**	**2**	**1,913**	**2,591**
	Inferred	1,265	61.17	26.57	0.37	0.36	0.38	2,488	1,081	15	10,049	10,667

Notes: *** Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.**

[1] Open pit resources stated as contained within a potentially economically minable pit shell;
[2] Pit optimization is based on assumed silver ("Ag"), gold, lead ("Pb"), and zinc ("Zn") prices of $31/oz, $1650/oz, $0.96/lb, and $0.89/lb respectively, mill recoveries of 74%, 70%, 81% and 88% respectively, a 1.5% NSR, estimated mining costs of $1.20/t, and estimated processing and G&A cost of $12.00/t; and an estimated POX cost of $2/tonne ($30/tonne of pyrite concentrate);
[3] Break-even cut-off grades used were 20 gpt AgEq for open pit mill material and 45 gpt AgEq for underground material;
[4] Silver equivalency is based on unit values calculated from the above metal prices, and assumes 100% recovery of all metals; and
[5] Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.

The following material changes incorporated into the updated resource estimation contributed to the significant increase in the mineral resource:

- Additional metallurgical test work has allowed for the inclusion of Au in the mineral resources, which has a significant impact on the AgEq grades and relative ounces.
- The estimated Measured and Indicated gold resources contained within the mineralized diatreme system total 508,000 ounces with an additional 155,000 ounces Inferred.

This mineral resource estimate has been completed by Matthew Hastings MSc, P.Geo and reviewed by Frank Daviess, MAusIMM, RM-SME, Associate Principal Resource Geologist with SRK. A site visit was conducted by Allan Moran, of SRK, R.G., C.P.G, who has reviewed pertinent geological information in sufficient detail to support the data incorporated in the mineral resource estimate. Mr. Daviess is an Independent Qualified Person as defined under NI 43-101 and is responsible for the mineral resource estimate presented in this release. Eric Olin, of SRK, MSc, MBA, RM-SME reviewed the metallurgical information contained in this release.

Drilling data includes a total of 45,118 samples from 65,092 metres of drilling. Of the 45,118 samples in the database, 22,658 lie within the wireframes and were used in the resource estimation. Wireframes are three-dimensional closed solids constructed in Vulcan™ and based on a combination of logged geology and assay information. These wireframes limit the estimation.

Three-dimensional wireframes were constructed for the modeled domains using Leapfrog 3D™ modeling software as well as Vulcan™. SRK modeled both the Pit and NE zones independently, and corrected inconsistencies with the Leapfrog solids using Vulcan.

The average sample length for all samples is 1.44 metres. Samples were composited to 3 m lengths within the breccia, stockwork, and PC zones. For the estimation, SRK used Ordinary Kriging in the densely-drilled areas and Inverse Distance Weighting for the areas with more widely-spaced drilling. SRK applied appropriate block model validation techniques for a resource estimation at this stage of project development.

Pit optimization was conducted using Whittle™ software and evaluating the block model which was constructed in Vulcan™. The purpose of the pit-optimization exercise is to satisfy the conditions of "reasonable prospects for economic extraction" as defined in the CIM Guidelines using pit shells based on a very simple "break-even" cash flow model. These pits are not representative of detailed mine plans or even the "best" pit design for the Project. A cut-off for the mineral resource of 20 gpt and 45 gpt AgEq for open pit and underground potential was used respectively.

Measured, Indicated and Inferred Mineral Resources are categorized as Measured being where at least 3 drill holes occur within a 25 metres ellipsoid, Indicated being where at least 3 drill holes occur within a 50 metres ellipsoid and Inferred being where at least 2 drill holes occur within a 75 metres ellipsoid. Blocks estimated using Inverse Distance Weighting in the widely-spaced drilling intermediate to the two primary zones are categorized as Inferred. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.

G&T Metallurgical Services Ltd, Kamloops, BC, Canada completed preliminary metallurgical programs on drill core composites from the Promontorio property for Kootenay in 2009, 2012 and 2013. Several significant factors were noticed in SRK's review of the metallurgical process work conducted to date. The metallurgical program investigated a standard polymetallic sequential flotation flowsheet that includes:

- Crushing;
- Grinding;
- Lead Flotation;
- Zinc Flotation; and
- Pyrite/Arsenopyrite Flotation

Pressure oxidation (POX) of the pyrite/arsenopyrite concentrate is required to extract the contained gold by cyanidation. SRK estimates metal recoveries shown in the table below are based on the average results from the preliminary metallurgical test programs conducted in 2009, 2012 and 2013. Overall gold recovery is estimated at 70% and is based on 65% gold recovery into the pyrite flotation concentrate followed by 94% cyanidation gold extraction from the pyrite concentrate after pressure oxidation, plus an average 9% gold recovery into the lead flotation concentrate.

Metallurgical Recovery Assumptions

Metal	Product	Recovery (%)
Silver	Lead Concentrate	74
Lead	Lead Concentrate	81
Zinc	Zinc Concentrate	88
Gold	Pyrite Concentrate	65
Gold	Lead Concentrate	9
Gold	Overall *	70

* Includes 94% cyanidation extraction from pyrite concentrate + gold contained in lead concentrate

The current NI 43-101 compliant Technical Report was filed on June 7, 2013 and can be reviewed on SEDAR (www.sedar.com).

GENERATIVE EXPLORATION PROJECTS

The Company continues to seek active option partners within its generative model, which minimizes financial exposure by granting external exploration companies a right to earn an interest in properties, subject to exploration expenditures and share payments made by them. Generative properties are continuously prioritized and dropped based on ongoing exploration work.

On February 14, 2014, the Company reported on exploration work conducted on the Cervantes Concession, which is located 50km northeast of Promontorio. Based on geologic observations, the Company believes Cervantes has potential for hosting leachable gold resources, the thesis of which can be tested at a relatively low cost. The current work is part of a regional discovery program that is focused on multiple mineralized systems identified to the northeast and northwest of the Promontorio Diatreme. The prospective systems form the basis of newly identified large mineralized belts trending northwest and northeast (see February 14, 2014 news release).

On April 3, 2014, the Company reported on ongoing exploration work conducted within the Nechako Plateau region of British Columbia, Canada. Exploration work conducted during the past two work seasons has resulted in the discovery of two new precious metal mineral systems called the Fox and Two Times Fred. Highlights of the new finds are:

Fox Property:

- Strongly anomalous gold and silver values in surface grab samples to 32 gpt Au and 6049 gpt Ag.
- Numerous anomalous mineral occurrences over one square kilometre.
- Best mineralization underlain by three kilometre long magnetic anomaly.
- Alteration and mineralization indicate potential for "disseminated and high grade type discovery".

Two Times Fred Property:

- Consistently anomalous gold with silver in upper levels of a "hot spring" epithermal gold system.
- Composite grab samples averaging 0.388 gpt Au with all samples averaging 0.318 gpt Au.
- Geology and mineralization indicate potential for large low grade and smaller high grade deposits.
- Numerous Gold anomalous silica veins occur over a large 1.75 by 2.5 kilometre area.
- Mineralization coincident with airborne magnetic and EM anomalies with bigger aerial extent than known occurrences.

Kootenay targeted the Nechako Plateau region for gold and silver exploration as the geology is conducive to the formation of large precious metals deposits as evidenced by the renowned Blackwater gold deposit and the Equity Silver deposit which are located within 50 to 90 kilometres of the Fox and Two Times Fred properties. Multi-phase exploration conducted by Kootenay leading up to the discoveries included extensive ground soil and rock sampling, biogeochemistry, geological mapping, processing and in-depth interpretation of government magnetic and EM surveys and ground geophysical surveys (magnetic and VLF-EM). The complete news release can be found on the Company's website.

On July 8, 2014, the Company announced it had entered into a letter agreement with Theia Resources Ltd. ("Theia"), whereby the Company granted Theia the right 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 $2.5 million 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 130,000 common shares and make a cash payment of $5 per metre drilled to a maximum of 100,000 metres. Subsequent to December 31, 2014, an initial payment of $5,000 has been made.

On April 8, 2014, the Company announced it had entered into an option agreement to acquire an undivided interest in the San Diego concession from an arms-length party. The San Diego concession is located in the Sonora State of Mexico and is an untested gold and silver target. Under the terms of the agreement, the Company has issued 100,000 common shares of the Company; and will make total cash payments of US$480,000 within a four-year period of which, a total of US$40,000 has been paid. The optionee retains a 2% net smelter return, which can be purchased by the Company for US$750,000 for each percentile.

EARN-IN OPTION AGREEMENT

The Company currently has two properties that are subject to earn-in option agreements, summarized below:

Property	Company	Interest of partner
Fox, BC, Canada	Theia Resources Ltd.	60% earn-in option
Two Times Fred, BC, Canada	Theia Resources Ltd.	60% earn-in option

RISKS AND UNCERTAINTIES

The Company is in the business of acquiring, exploring mineral properties. It is exposed to a number of risks and uncertainties that are common to other mineral exploration companies in the same business. The industry is capital intensive at all stages and is subject to variations in commodity prices, market sentiment, exchange rates for currency, inflation and other risks. The Company currently has no source of revenue other than project management fees, and interest on cash balances. The Company will rely mainly on equity financing to fund exploration activities on its mineral properties.

The risks and uncertainties described in this section are not inclusive of all the risks and uncertainties to which the Company may be subject.

Early Stage – Need for Additional Funds
The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many risks common to other companies in the same business, including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be

successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

The Company anticipates future expenditures will require additional infusions of capital; there can be no assurance that such financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing common shares from treasury, control of the Resulting Issuer may change and investors may suffer additional dilution. Furthermore, if financing is not available, lease expiry dates, work commitments, rental payments and option payments, if any may not be satisfied and could result in a loss of the shareholders entire investment.

Exploration and Development

Mineral exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits, but also from finding mineral deposits that, though present, are of insufficient size and/or grade to return a profit from production.

All of the mineral claims to which the Company has a right to acquire an interest are in the exploration stages only, and are without a known body of commercial ore. Upon discovery of a mineralized occurrence, several stages of exploration and assessment are required before its economic viability can be determined. Development of the subject mineral properties would follow only if favorable results are determined at each stage of assessment. Few precious and base metal deposits are ultimately developed into producing mines.

Estimates of mineral resources may not be realized

The mineral resource estimates contained in the Company's Technical Reports are only estimates and no assurance can be given that an identified resource will ever qualify as a commercially mineable (or viable) deposit, which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from the one indicated by the drilling results and the difference may be material. Material changes in resources, grades and other factors, may affect the economic viability of projects.

Earn-In agreements

The Company continues to enter into separate option agreements with publicly listed companies where the opportunity exists on the Company's exploration properties other than Promontorio. The terms of such option agreements vary but primarily optioning companies are granted an option to earn up to a 60% ownership interest in an exploration property by issuing shares to the Company and incurring exploration expenditures. These are not firm payment or expenditure commitments and are subject to these companies obtaining sufficient financing to fulfill their earn-in requirements. The agreements are also subject to termination if such payment and expenditure commitments are not fulfilled. On fulfillment of these commitments, the ownership arrangement and future development of the property will be subject to a joint venture agreement whereby the Company will be required to finance its proportionate share of exploration expenditures based on the ownership ratio of each of the parties. There is no certainty that any of these companies will complete the required expenditures on the properties to earn-in on the properties or that they will be able to obtain the necessary financing to complete the expenditure requirements in which case the costs of carrying and developing the properties will be the responsibility of the Company.

Operating Hazards and Risks

Mining operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. In the course of exploration, development and production of mineral properties, certain risks, and in particular unexpected or unusual geological operating conditions, including rock bursts, cave-ins, fires, flooding and earthquakes, may occur. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral deposits, any of which could result in damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage.

Although the Company maintains liability insurance in an amount that it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial conditions.

Political Risk

The Company's advanced project and certain other property interests are located in Mexico, and are subject to that jurisdiction's laws and regulations. Obtaining financing, finding or hiring qualified people or obtaining all necessary services for the Company's operations in Mexico may be difficult. Mexico's status as a country may make it more difficult for the Company to attract investors or to obtain any required financing for its exploration projects. The Company believes the present attitude of Mexico to foreign investment and mining to be favourable but investors should assess the political risks of investing in a foreign country. Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company.

Supplies, Infrastructure, Weather and Inflation

The Company's property interests are often located in remote, undeveloped areas and the availability of infrastructures such as surfaces access, skilled labour, fuel and power at an economic cost cannot be assured. These are integral requirements for exploration, production and development facilities on mineral properties. Power may need to be generated on site.

Due to the partial remoteness of its exploration projects, the Company is forced to rely on the accessibility of secondary roads resulting in potentially unavoidable delays in planned programs and/or cost overruns. The rainy season in Mexico during the months of June through September can sometimes flood the main access road causing temporary delays.

Metal Prices

The mining industry, in general, is intensely competitive and there is no assurance that a profitable market will exist for the sale of metals produced even if commercial quantities of precious and/or base metals are discovered. Factors beyond the control of the Company and may affect the marketability of metals discovered. Pricing is affected by numerous factors beyond the Company's control, such as international economic and political trends, global or regional consumption and demand patterns, increased production and smelter availability. There is no assurance that the price of metals recovered from any mineral deposit will be such that they can be mined at a profit.

Title Risks

Although the Company has exercised due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements, or transfers, or conflicting claims; or native claims, and title may be affected by undetected defects.

Environmental Regulations, Permits and Licenses

The Company's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters. Environmental legislation in British Columbia, Canada and Mexico provides restrictions and prohibition on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines, penalties and work stoppage. In addition, certain types of operations require the submission and approval of environmental impact statements. Environmental legislation is evolving in a direction of stricter standards and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

The current operations of the Company require permits from various government authorities and such operations are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental, mine safety and other matters.

The Company believes that it is in compliance with all material laws and regulations, which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Competition and Agreements with Other Parties

The mining industry is intensely competitive in all its phases, and the Company competes with other companies that have greater financial resources and technical capacity. Competition could adversely affect the Company's ability to acquire suitable properties or prospects in the future.

The Company may, in the future, be unable to meet its share of costs incurred under such agreements to which it is a party and it may have its interest in the properties subject to such agreements reduced as a result. Also, if other parties to such agreements do not meet their share of such costs, the Company may not be able to finance the expenditures required to complete recommended programs.

Economic Conditions

Unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, decrease net income or increase net loss, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

Dependence on Management

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and the best interest of the Company.

Insurance coverage

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability.

The Company's policies of insurance may not provide sufficient coverage for losses related to these or other risks. The Company's insurance does not cover all risks that may result in loss or damages and may not be adequate to reimburse the Company for all losses sustained. In particular, the Company does not have coverage for certain environmental losses or certain types of earthquake damage. The occurrence of losses or damage not covered by insurance could have a material and adverse effect on the Company's cash flows, results of operation and financial condition.

Shareholder dilution

The Company's constating documents permit the issuance of an unlimited number of common shares and a limited number of preferred shares issuable in series on such terms as the Directors determine without the approval of shareholders, who have no pre-emptive rights in connection with such issuances. In addition, the Company is required to issue common shares upon the conversion of its outstanding share purchase warrants and options in accordance with their terms. Accordingly, holders of common shares may suffer dilution.

Uninsurable risks

In the course of exploration, development and production of mineral properties, certain risks and, in particular, unexpected or unusual geological operating conditions including cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

Disclosure Controls and Procedures

Management is responsible for the preparation and integrity of the Financial Statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

Management is also responsible for the design of the Company's internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

Readers are cautioned that the Company is not required to certify the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting and has not completed such an evaluation. The inherent limitations on the ability of the Company's certifying officers to design and implement on a cost-effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected quarterly financial information prepared in accordance with IFRS for each of the Company's last eight quarters:

	Q4 2014[(2)]	Q3 2014[(3)]	Q2 2014[(4)]	Q1 2014[(5)]	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Total Revenue [(1)]	7,287	7,536	6,038	7,476	(18,617)	24,003	36,485	54,200
Net Income (Loss)	(4,310,742)	162,992	(700,243)	(1,041,612)	(1,865,364)	(1,292,537)	(810,055)	(870,691)
Income (Loss) Per Share	(0.063)	0.002	(0.011)	(0.017)	(0.031)	(0.021)	(0.013)	(0.015)

(1) Revenue is derived from administration fees and interest income.

(2) The variation in net loss for the three months ended December 31, 2014 to the prior quarter ended September 30, 2014, was primarily due to the impairment of mineral properties totaling $3,215,783, as well as an unrealized foreign exchange loss of $507,980 on the translation of its subsidiaries' monetary assets.

(3) The net income recorded for the three months ended September 30, 2014 was mainly related to an unrealized foreign exchange gain of $602,652 due to the translation of the Company's monetary assets in its Mexican subsidiary.

(4) The variation in net loss for the three months ended June 30, 2014 to the three months ended March 31, 2014 reflected the Company's focus on cost-effectiveness that resulted in decreased mineral property investigation costs of $93,909; decreased office and general costs of $72,293 and decreased professional fees of $49,408 as compared to three month period ended March 31, 2014. The Company also recorded decreased non-cash payment expense of $126,341 as compared to the prior period.

(5) The variation in net loss for the three months ended March 31, 2014 to the three months ended December 31, 2013 was attributed to decreased non-cash share based payment expense of $80,864; decreased professional fees of $123,351 and decreased mineral property investigation costs of $65,861 as compared to the fourth quarter of 2013, ended December 31, 2013.

SELECTED ANNUAL INFORMATION

The financial statements have been prepared in accordance with IFRS for fiscal years 2014, 2013, and 2012, and are expressed in Canadian dollars.

As at December 31:	**2014**	**2013**	**2012**
	$	$	$
Total Assets	35,349,095	38,425,005	35,997,915
Current Liabilities	416,852	536,435	352,975
Other Liabilities	-	-	-
Shareholders' Equity	34,932,243	37,888,570	35,644,940
Total shareholders' Equity & Liabilities	35,349,095	38,425,005	35,997,915

As at December 31:	**2014**	**2013**	**2012**
	$	$	$
Total Revenue (1)	28,337	96,071	38,980
Net Loss(2)(3)	5,889,605	4,838,647	2,581,399
Basic and diluted loss per share	$(0.089)	$(0.080)	$(0.053)
Weighted average number of common shares outstanding	66,064,625	60,805,535	49,385,203

(1) Revenue is derived from administration fees and interest income

(2) Net Loss for 2014 included $3,215,783 in impairment to the carrying value of mineral properties (2013 - $944,199; 2012 - $658,229)

(3) Net Loss for 2014 included non-cash share based payments expense of $557,762 (2013 - $1,436,764; 2012 - $684,489)

FINANCING ACTIVITIES

On December 23, 2014, the Company closed the initial tranche of its December 10, 2014 announced non-brokered private placement. A total of 2,120,000 units were issued at a price of $0.35 per unit consisting of one common share and one transferable share purchase warrant, for gross proceeds of $742,000. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.60 expiring December 23, 2016. The second tranche of 2,388,214 units for gross proceeds of $835,875 closed subsequent to December 31, 2014 (see Subsequent Events section).

On August 18, 2014, the Company completed a non-brokered private placement of 7,246,833 units at a price of $0.30 per unit consisting of one common share and one transferable share purchase warrant, for aggregate gross proceeds of $2,174,050. The private placement was completed in two tranches, with the closing of the initial tranche on July 18, 2014 for gross proceeds of $1,633,050 and a total of 5,443,500 common shares and warrants being issued and the final tranche of 1,803,333 common shares and warrants, for gross proceeds of $541,000 closing on August 18, 2014. Each warrant entitles the holder to acquire one common share at an exercise price of $0.55 for a period of 24 months from the closing date of the private placement. Total cash finder's fees of $86,490 were paid in connection with the private placement. The net proceeds from the private placement will be used to finance additional work on Kootenay's Promontorio property, which includes the new La Negra Discovery, its other properties and for general working capital.

On April 26, 2013, the Company raised gross proceeds of $4,750,000 through a non-brokered private placement, which was wholly subscribed to by Agnico-Eagle Mines Limited ("Agnico-Eagle"). A total of 6,250,000 units were issued. As a result of the transaction Agnico-Eagle owns 9.96% of the Company's issued and outstanding shares on a non-diluted basis. Each unit ("Unit") was priced at $0.76 per Unit and consisted of one common share ("Share") and one half of one common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one Share at a purchase price of $1.08 per Share expiring April 26, 2015. Subject to certain conditions, Agnico-Eagle will have the right to participate in any future equity offerings by the Company in order to maintain its pro rata investment in the Company. Subsequent to December 31, 2014, the 3,125,000 warrants issued expired unexercised.

The junior exploration industry is seeing a tightening in investment dollars as a result of the pressure on precious and base metal prices, which is adding pressure to junior explorers to ensure that dollars are effectively invested into their resource projects. The Company continues to focus on advancing its Promontorio project and the La Negra Discovery amongst other projects in a cost effective manner, securing maximum value from dollars spent.

INVESTING ACTIVITIES

During the year ended December 31, 2014, the Company incurred $1,953,975 (2013 - $6,026,499) in mineral property acquisition and deferred exploration costs. Significant areas of expenditures were:

Description	Year ended December 31, 2014	Year ended December 31, 2013
Acquisition costs incurred	$52,189	$60,000
Assaying and lab	$165,330	$574,885
Camp costs	$224,504	$739,725
Drafting	$194,208	$212,154
Drilling	$471,316	$3,000,729
Geological mapping	$151,335	$207,035
Geophysics	$9,610	$128,842
Maintenance	$235,890	$744,453
Miscellaneous	$18,250	$78,008
Prospecting	$380,277	$447,041
Rock sampling	$72,000	$76,476
Metallurgical testing	-	$30,578
Recovery of costs	($10,493)	($42,617)
	$1,964,416	$6,257,309
Non-cash transactions:		
Impairment	($201,090)	($79,271)
Net change in working capital related to investing activities	$190,649	($151,539)
	$1,953,975	$6,026,499

Capitalized mineral property expenditure as at December 31, 2014 totaled $31,697,553 (2013 - $33,717,768). The Company has expended $30,692,451 net of recoveries and abandonment (2013 - $31,780,954) on its Mexican properties of which $29,505,114 (2013 - $28,565,614) is related directly to exploration activities on the Company's Promontorio property. A mining exploration tax credit ("METC") of $212,707 was recorded during the year ended December 31, 2014.

RESULTS OF OPERATIONS

Three month period ended December 31, 2014

The Company recorded a net loss of $4,310,742 or $0.057 per share (2013 – $1,865,364 or $0.031) based on a greater weighted average number of shares outstanding.

Corporate general and administrative expenditure totaled $580,365 (2013 – $ 1,105,088), which included a reduced recognition of non-cash share based payment expense of $42,252 (2013 – $ 354,256). Office and general costs totaling $249,159 (2013 – $259,179) includes the Company's offices and staff in Vancouver and exploration offices in Hermosillo, Mexico and Kimberley, British Columbia. Also included in office and general is the Company's promotional, travel and investor relations expenses, which decreased versus the prior comparable period and totaled $78,470 (2013 – $137,432). Management fees were $89,750 (2013 – $87,175). Professional fees decreased over the prior comparable period totaling $152,748 (2013 – $254,009), which includes consultant work and comparable directors' fees.

The Company recorded a foreign exchange loss of $507,980 (2013 – $382,435). The Company maintains foreign currency in both Mexican peso and US dollar accounts and incurs certain operating expenditures in each of those currencies, which coupled with consolidating its Mexican subsidiary gives rise to exchange risk.

For the three month period ended December 31, 2014, the Company expensed property investigation and impairment costs totaling $3,186,212 (2013 – $980,078).

Year ended December 31, 2014

The Company recorded a net loss of $5,889,605 or $0.089 per share (2013 - $4,838,647 or $0.080) based on a greater weighted average number of shares outstanding.

Corporate general and administrative expenditure totaled $2,590,490 (2013 - $3,657,957), which included a reduced recognition of non-cash share based payment expense of $557,762 (2013 - $1,436,764). Office and general costs totaling $1,051,208 (2013 - $1,140,333) includes the Company's offices and staff in Vancouver and exploration offices in Hermosillo, Mexico and Kimberley, British Columbia. Also included in office and general is the Company's promotional, travel and investor relations expenses, which decreased versus the prior comparable period and totaled $333,543 (2013 - $417,296) due to reduced marketing activities including, road shows and associated travel. Management fees were $359,000 (2013 - $359,000). Professional fees decreased over the prior comparable period totaling $417,717 (2013 - $469,640), which includes consultant work and directors' fees.

The US dollar strengthened over both the Canadian dollar and the Mexican peso during the fiscal year. The Company recorded foreign exchange loss of $78,674 (2013 - $334,856). The Company maintains foreign currency in both Mexican peso and US dollar accounts and incurs certain operating expenditures in each of those currencies, which gives rise to exchange risk.

For the year ended December 31, 2014, the Company recorded finance income of $28,337 (2013 - $91,360), which decreased as a result of less cash held as compared to the previous reporting period. The Company expensed property investigation and impairment costs totaling $3,310,401 (2013 - $1,198,002) during the period. The Company recorded a realized gain on the sale of its marketable securities of $74,825 (2013 - loss of $413,615) and an unrealized loss on its marketable securities of $214,325 (2013 - $149,123).

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2014, the Company had working capital of $2,910,818 (2013 - $3,828,553), with cash and cash equivalents totaling $2,360,822 (2013 - $2,804,423).

During the year ended December 31, 2014, the Company raised gross proceeds by way of closing two non-brokered private placements of $2,174,050 and $742,000, by issuing a total of 7,246,833 units at a purchase price of $0.30 per unit and 2,120,000 units at a purchase price of $0.35 per unit, respectively (see Financing Activities).

During the year ended December 31, 2013 (closed April 26, 2013), $4,750,000 was raised by way of non-brokered placement (see Financing Activities).

Our current cash position will enable us to continue minimal budgeted exploration efforts in Mexico and Canada, as well as to generate new properties and forming options or joint venture agreements to managing risk, in which partner companies explore and develop such projects in return for the right to earn an interest in them. Funding will be needed to advance the Promontorio project into the next phase of exploration. The Company plans to obtain financing in the future primarily through further equity issuance, as well as through joint venturing and/or optioning out the Company's properties to qualified mineral exploration companies. There can be no assurance that the Company will succeed in obtaining financing, now or in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its mineral properties.

The Company's access to additional capital may not be available on terms acceptable to us or at all. As we expect our reliance on equity financings to continue into the future, these current market conditions could make it difficult or impossible for us to raise necessary funds to meet our capital requirements. If we are unable to obtain financing through equity investments, we will seek multiple solutions including, but not limited to, joint ventures, credit facilities or debenture issuances. We are also attuned to the effect of capital markets on many of our joint venture partners who may not be able to meet their obligations under their option or joint venture agreements.

All cash is held with Canadian Schedule I banks either in deposit accounts or guaranteed investment certificates, and the Company has no joint ventures with any parties that potentially create derivative or hedge risk.

OUTLOOK

The Company is currently reviewing future exploration plans related to advancing Promontorio; however the current focus is to complete the Phase II drilling program at the newly discovered La Negra target, completion of which is expected in May 2015 with a forecasted cost of $700,000. Thereafter, a resource estimate for La Negra is contemplated with a target date of Q3/2015. A number of possibilities exist for the next stage of work at Promontorio. These include but are not limited to: continued drilling to expand the La Negra Discovery, resource base, drilling other satellite targets within the Promontorio concession block similar to La Negra, a resource update, an economic assessment such as a Preliminary Economic Assessment (PEA), further metallurgical work, additional hydrologic and geotechnical work. The work plan will consider what work will be most beneficial for the project and Company as balanced against work results, the cash balance and market conditions affecting future funding. The Company is focused on ensuring capital resources are spent in the most efficient manner especially related to the advancement of Promontorio. The Company also continues to generate new mineral discoveries and seek partners to finance the advancement of these projects.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments include cash, accounts receivable, exploration deposits and advances, marketable securities, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

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 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, accounts receivable in the form of tax credits from Canada and Mexico are regarded with minimal risk and receivables from exploration partners are regarded with moderate risk by the Company.

(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 December 31, 2014, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, which have a maturity of less than one year.

(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.

(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, 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:

	December 31, 2014	December 31, 2013
	US$	US$
Cash	**270,685**	35,203
Trade accounts payable and accrued liabilities	**21,007**	-
	Mexican Peso	Mexican Peso
Cash	**1,197,494**	932,103
Receivables and advances	**7,259,702**	6,821,319
Trade accounts payable and accrued liabilities	**224,237**	592,504

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 +/- $56,000 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 financial statements.

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off Balance Sheet Arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2014, officers of the Company earned management and consulting fees totaling $503,000 (2013 - $503,000) of which $144,000 (2013 - $144,000) has been allocated to deferred mineral property costs. These amounts were incurred in the ordinary course of business.

During 2008, the Company 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 consulting agreement provides for a base monthly fee of $15,000 payable to each party. The consulting agreement is effective as of January 1, 2008 and expired on December 31, 2009; on expiration, the agreement extends in increments of 24 months, until terminated.

Effective September 1, 2008, the Company entered into an administrative and geological services agreement with Touchstone Capital Corp. a private company indirectly related to two directors, Messrs. McDonald and Berry. Touchstone provides services to the Company including assisting in professional analysis, geological personnel, 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 year ended December 31, 2014, the Company incurred $120,000 (2013 - $120,000) under the administrative services contract.

In addition to the above:

a) Included in marketable securities as at December 31, 2014 is $111,000 (2013 - $322,000) market value of shares received from companies with directors and officers in common.

b) Included in exploration recovery of costs as at December 31, 2014 is $1,151,524 (2013 - $1,141,026) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at December 31, 2014 is $55,685 (2013 - $183,272) from companies who have common directors or officers.

d) The Company recorded an expense of $60,000 (2013 - $63,000) for compensation to directors during the year ended December 31, 2014. As at December 31, 2014, $48,000 is recorded in accounts payables.

e) Included in accounts payable as at December 31, 2014 is $130,921 (2013 - $32,976) to companies who have common directors or officers.

f) The Company incurred $30,000 (2013 - $120,000) for consulting fees related to engineering services provided by one director during the year ended December 31, 2014.

g) Included in prepaid expenses is $nil (2013 - $1,845) related to office deposits charged by a company with common directors.

h) The Company incurred $268,035 (2013 - $785,050) for share-based payment expenses to related parties during the year ended December 31, 2014.

CHANGES IN ACCOUNTING POLICIES INCLUDING NEW ANNOUNCEMENTS

Accounting Policy Changes

The following new standards, interpretations and amendments were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC"), and are effective for annual periods beginning on or after January 1, 2014.

New accounting standards adopted during 2014

The following standards were applied for periods beginning on or after January 1, 2014 and had no material impact on the Company's consolidated financial statements:

IFRS 2, *Share-based Payment* ("IFRS 2"): Amended to clarify the definition of a vesting condition and separately define performance and service conditions.

IFRS 3, *Business Combinations* ("IFRS 3"): Amended to clarify that an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as a financial liability or as equity on the basis of the definitions in IAS 32. Non-equity consideration is measured at fair value at each reporting date, with changes recognized in the results of operations. As well, the amendment clarifies that IFRS 3 does not apply to the formation of any joint arrangement and that the scope exemption only applies in the financial statements of the joint arrangement itself.

IFRS 13, *Fair Value Measurement* ("IFRS 13"): Amended to clarify that the portfolio exception in IFRS 13, which allows fair value measurement of a group of financial assets and liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32.

IFRIC 21, *Levies* ("IFRIC 21"): Amended to provide guidance for the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized.

IAS 24, *Related Party Disclosures* ("IAS 24"): Amended to include as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

IAS 32, *Financial Instruments: Presentation* ("IAS 32"): Amended to provide further clarity around details relating to the right to offset and the application of offsetting under certain circumstances.

Future accounting standards issued but not yet adopted

The following amendments to existing standards were issued by the IASB and are effective for annual periods beginning on or after January 1, 2015. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

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.

Critical Accounting Estimates

Please refer to Note 3 of the Company's Audited Financial Statements for the year ended December 31, 2014, for additional information under "Significant Accounting Policies".

Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for depreciation of property and equipment, the recoverability of mineral property interests, determination of estimates of deferred tax assets and liabilities, and the determination of variables used in the calculations of share based payments. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

OTHER MD&A REQUIREMENTS

Additional Disclosure for Venture Companies without Significant Revenues
The following table sets forth a breakdown of material components of the office and general costs of the Company for the years indicated.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Office	**584,006**	694,476	449,919
Telephone and postage	**38,723**	36,611	33,932
Travel and promotion	**333,543**	380,685	387,945

Disclosure of Outstanding Share Data
The following table states the diluted share capital of the Issuer as at April 29, 2015:

	Number Shares Outstanding (Diluted)
Outstanding as at December 31, 2013	**62,808,850**
Issuance of share capital for acquisition mineral property interests	55,000
Private placement	9,366,833
Outstanding as at December 31, 2014	**72,230,683**
Private placement	2,388,214[1]
Issuance of share capital for acquisition mineral property interests	170,000
Outstanding as at April 29, 2015	74,778,897
Shares reserved for issuance pursuant share purchase warrants outstanding	15,675,047[2][3]
Shares reserved for issuance pursuant share purchase options outstanding	7,627,000[4]
DILUTED TOTAL	**98,090,944**

Notes

(1) As at April 29, 2015, 2,388,214 outstanding common shares issued pursuant to the Private Placement closed February 2, 2015, are subject to a four-month period hold ending June 2, 2015.

(2) As at April 29, 2015, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows (see 'Subsequent Events' section):

Number of Shares	Exercise Price	Expiry Date
3,430,000	1.30	October 25, 2015
500,000	1.30	October 30, 2015
5,443,500	0.55	July 18, 2016
1,803,333	0.55	August 18, 2016
2,120,000	0.60	December 23, 2016
2,388,214[3]	0.60	February 2, 2017
15,675,047		

(3) As at April 29, 2015, 2,388,214 outstanding share purchase warrants pursuant to the Private Placement closed February 2, 2015, are subject to a four-month period hold ending June 2, 2015.

(4) As at April 29, 2015, the Company had outstanding share purchase options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
120,000	0.77	November 14, 2015
750,000	1.00	March 23, 2016
200,000	1.20	December 11, 2016
2,120,000	1.05	November 26, 2017
1,952,000	0.66	September 18, 2018
2,485,000	0.35	February 23, 2020
7,627,000		

Commitments
The Company has entered, jointly with other tenants, into an office lease, which commenced January 1, 2013 and expires December 31, 2015 at $3,169 per month. Additionally, the Company has entered, into an additional office lease, which commenced August 1, 2013 and expires July 31, 2018 at $2,976 per month. During the year ended December 31, 2014, the additional office lease was subleased to a third party until December 31, 2015 thereby reducing the Company's commitment to $339 per month from $2,976 per month.

Mineral property payments and project related commitments have been outlined under the property headings found in the 'Portfolio of Mineral Properties' section of this MD&A and the audited annual consolidated financial statements for the year ended December 31, 2014.

Disclosure Controls and Procedures
Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end period covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

Cautionary note regarding preparation of Mineral Reserves and Resources
This MD&A uses the terms "reserves" and "resources" and derivations thereof. These terms have the meanings set forth in Canadian National Instrument 43-101 - Standards of Disclosure for Mineral Projects (NI 43-101) and the Canadian Institute of Mining, Metallurgy and Petroleum's Classification System (CIM Standards). NI 43-101 and CIM Standards differ significantly from the requirements of the United States Securities and Exchange Commission (the SEC). Under SEC Industry Guide 7, mineralization may not be classified as a "reserve" unless the determination has been made that is part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination". In addition, the term "resource", which does not equate to the term "reserve", is not recognized by the SEC and the SEC's disclosure standards normally do not permit the inclusion of information concerning resources in documents filed with the SEC, unless such information is required to be disclosed by the law of the Company's jurisdiction of incorporation or of a jurisdiction in which its securities are traded. Accordingly, information concerning descriptions of mineralization and resources contained in this Management's Discussion and Analysis may not be comparable to information made public by US domestic companies subject to the reporting and disclosure requirements of the SEC.

Approval
The Audit Committee as authorized by the Board of Directors of the Company has approved the disclosure contained in this MD&A.

ADDITIONAL INFORMATION
Additional information relating to the Company can be found on the Company's website at www.kootenaysilver.com and on SEDAR at www.sedar.com