



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the period ended**

**March 31, 2017**

**and**

**March 31, 2016**

**(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 interim 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.

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**CONSOLIDATED FINANCIAL STATEMENTS**

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# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

	March 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 5,251,520	\$ 5,789,615
Receivables and advances (Note 9, 12)	512,917	1,193,031
Prepaid expenses	164,868	81,080
Marketable securities (Note 5)	486,150	482,290
	<b>6,415,455</b>	<b>7,546,016</b>
<b>Non-current assets:</b>		
Fixed assets (Note 6)	967,873	974,537
Advances and deposits	113,041	113,041
Mineral properties (Note 4, 7)	67,964,557	68,019,145
<b>Total assets</b>	<b>\$ 75,460,926</b>	<b>\$ 76,652,739</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (Note 12)	\$ 362,854	\$ 491,629
Current portion of termination benefit liability (Note 4)	197,115	197,115
	<b>559,969</b>	<b>729,167</b>
<b>Long-term liabilities:</b>		
Non-current portion of termination benefit liability (Note 4)	144,665	144,665
<b>Total liabilities</b>	<b>704,634</b>	<b>873,832</b>
<b>Shareholders' equity:</b>		
Share capital (Note 8)	80,864,566	80,861,278
Reserves (Note 8)	28,938,591	28,565,345
Accumulated other comprehensive loss (Exhibit 4)	5,240,295	5,491,942
Deficit	(40,287,160)	(39,139,658)
<b>Total shareholders' equity</b>	<b>74,756,292</b>	<b>75,778,907</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 75,460,926</b>	<b>\$ 76,652,739</b>

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 March 31,	
	2017	2016
<b>General and administrative expenses</b>		
Share based payments (Note 8)	373,246	37,619
Office and general (Note 12)	283,834	328,932
Professional fees	150,906	161,190
Management fees (Note 12)	93,250	85,250
Rent	21,978	24,072
Regulatory and filing fees	14,874	17,506
Depreciation (Note 6)	\$ 9,682	\$ 11,553
<b>Loss before exploration and other items</b>	<b>947,770</b>	<b>666,122</b>
<b>Exploration</b>		
Mineral property investigation (Note 7)	95,317	22,201
Impairment of mineral properties (Note 7)	-	25,837
Mining exploration refund on previously impaired properties (Note 7)	-	(76,403)
	<b>95,317</b>	<b>(28,365)</b>
<b>Other Items</b>		
Foreign exchange loss/(gain)	115,756	(170,251)
Finance income	(11,341)	(8,757)
	<b>104,415</b>	<b>(179,008)</b>
<b>Loss for the period</b>	<b>\$ 1,147,502</b>	<b>\$ 458,749</b>
<b>Basic and diluted loss per share (Note 8)</b>	<b>\$ (0.007)</b>	<b>\$ (0.006)</b>
<b>Weighted average number of common shares outstanding</b>	<b>174,697,376</b>	<b>82,089,381</b>

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

	Three months ended March 31,	
	2017	2016
<b>Loss for the period</b>	<b>\$ 1,147,502</b>	<b>\$ 458,749</b>
Other comprehensive (income)/loss		
Unrealized income on available-for-sale financial assets arising during the period	<b>(1,860)</b>	(33,700)
Foreign currency translation differences of foreign operations	<b>253,507</b>	1,052,363
Total other comprehensive loss	<b>251,647</b>	1,018,663
<b>Comprehensive loss for the period</b>	<b>\$ 1,399,149</b>	<b>\$ 1,477,412</b>

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Exhibit 4

	Number of Shares	Capital Stock	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balance, December 31, 2015</b>	79,421,397	\$ 50,397,700	\$ 19,886,206	\$ 4,783,667	\$ (35,519,018)	\$ 39,548,555
Shares issued, net of issuance costs	30,957,749	7,772,605	1,132,306	-	-	8,904,911
Acquisition of mineral properties	250,000	96,700	-	-	-	96,700
Shares issued on acquisition of Northair Silver Corp. (Note 4)	53,909,261	20,215,973	7,007,770	-	-	27,223,743
Shares issued on NSR acquisition from Coeur Capital (Note 4)	9,629,091	2,648,000	-	-	-	2,648,000
Shares issued termination benefit allowance (Note 4)	337,228	134,891	-	-	-	134,891
Exercise of share purchase warrant	150	83	-	-	-	83
Exercise of share purchase option	192,500	109,448	(44,444)	-	-	65,004
Warrant expiration date amendment	-	(514,121)	514,121	-	-	-
Share based payment	-	-	69,386	-	-	69,386
Unrealized gain on available-for-sale financial assets arising during the period	-	-	-	223,400	-	223,400
Foreign currency translation differences of foreign operations	-	-	-	484,875	-	484,875
Loss for the period	-	-	-	-	(3,620,640)	(3,620,640)
<b>Balance, December 31, 2016</b>	174,697,376	\$ 80,861,278	\$ 28,565,345	\$ 5,491,942	\$ (39,139,658)	\$ 75,778,907
Share issuance costs	-	3,288	-	-	-	3,288
Share based payment	-	-	373,246	-	-	373,246
Unrealized gain on available-for-sale financial assets arising during the period	-	-	-	1,860	-	1,860
Foreign currency translation differences of foreign operations	-	-	-	(253,507)	-	(253,507)
Loss for the period	-	-	-	-	(1,147,502)	(1,147,502)
<b>Balance, March 31, 2017</b>	174,697,376	\$ 80,864,566	\$ 28,938,591	\$ 5,240,295	\$ (40,287,160)	\$ 74,756,292

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Exhibit 5	
	Three months ended March 31,	
	2017	2016
<b>Cash flows from operating activities</b>		
Loss for the period	\$ (1,147,502)	\$ (458,749)
Add items not involving cash:		
Share based payment	373,246	37,619
Impairment of mineral properties	-	25,838
Depreciation	9,682	11,553
	<b>(764,574)</b>	<b>(383,739)</b>
Changes in non-cash working capital balances:		
Receivable and advances	690,441	(81,167)
Prepaid expenses	(147,321)	(331,590)
Accounts payable and accrued liabilities	(230,180)	179,964
	<b>(451,634)</b>	<b>(616,532)</b>
<b>Cash flows from financing activity</b>		
Share issuance costs	(3,288)	1,791,649
	<b>(3,288)</b>	<b>1,791,649</b>
<b>Cash flows used in investing activities</b>		
Investment in mineral properties	(446,630)	(303,419)
Receipt of mineral property payment	199,485	343,100
Increase in exploration advance	(51,489)	-
Investment in equipment	(8,467)	(4,550)
Receipt of mining exploration refund	-	216,726
	<b>(298,634)</b>	<b>251,857</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>223,928</b>	<b>(145,704)</b>
<b>Net change in cash and cash equivalents</b>	<b>(538,095)</b>	<b>1,281,270</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>5,789,615</b>	<b>730,682</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 5,251,520</b>	<b>\$ 2,011,950</b>

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

- see accompanying notes -



# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS March 31, 2017 and 2016

### 1 Reporting Entity:

Kootenay Silver Inc. and its wholly owned subsidiaries (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 currently listed on the TSX Venture Exchange ("TSX-V") under the symbol "KTN".

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 interim 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 year ended December 31, 2016, the Company raised aggregate gross proceeds of \$9,582,747 from the closing of private placements (Note 8). 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 forthcoming year 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 interim 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 interim financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

	March 31, 2017	March 31, 2016
Deficit	\$ 40,287,160	\$ 35,977,767
Working capital	\$ 5,855,486	\$ 2,520,885

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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**2 Basis of Presentation:**

**Statement of Compliance**

These consolidated interim financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

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, 2016. These consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated statements for the year ended December 31, 2016.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on May 29, 2017.

**Functional and presentation currency**

These consolidated interim financial statements are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the Company and its wholly owned subsidiaries, Northair Silver Corp and Kootenay Resources Inc. The functional currency of wholly owned subsidiaries of the Company, Minera JM S.A. de C.V., Grupo Northair de Mexico S.A. de C.V. and Kootenay Gold (US) Corp., is the US dollar and for Servicios de Exploraciones Sonora, 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 (income) 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 (income).

**3 Significant Accounting Policies:**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements. The significant accounting policies adopted by the Company are as follows:

**Basis of measurement**

These consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable.

**Basis of consolidation**

These consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kootenay Resources Inc., 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 interim 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.

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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

**Critical accounting estimates and judgements**

The preparation of the consolidated interim financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated interim 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 interim 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 interim financial statements are as follows:

(i) 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.

(ii) 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.

(iii) 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 8 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 interim financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

(iv) 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.

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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

**Critical accounting estimates and judgements** (continued)

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

- (i) assessment of the Company's ability to continue as a going concern;
- (ii) assessment of the acquisition of Northair Silver Corp. as a business combination or asset acquisition;
- (iii) determination of functional currency; and
- (iv) evaluation of 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.

**Current and future accounting standards**

Standards issued or amended but not yet effective:

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, 2017. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from below:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of adopted IFRS 15 on the consolidated interim financial statements.

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.

IFRS 9, *Financial Instruments* ("IFRS 9") replaces IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety to reduce the complexity in the classification and measurement of financial instruments with the establishment of three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and FVTPL. 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.

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

**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 plus 0.15 common share purchase warrant of the Company for each Northair share. The warrants have a five-year term from closing and have an exercise price of \$0.55. The warrants are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KTN.WT". Additionally, the Company assumed all warrants and options of Northair that were outstanding immediately before the acquisition under the same basis of 0.35 for each whole warrant or option. The acquisition was carried out by way of a court-approved plan of arrangement 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.

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

The acquisition of Northair was deemed an asset acquisition for accounting purposes.

Consideration paid:

Fair value of 53,909,261 common shares issued	20,215,973
Fair value of 23,103,969 common shares purchase warrants	4,988,147
Fair value of 3,862,250 replacement options	631,126
Fair value of 13,998,250 replacement warrants	1,388,497
Transaction costs incurred by the Company	472,112
<b>Total consideration paid</b>	<b>27,695,854</b>

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

Cash and cash equivalents	1,483,298
Receivables	135,879
Prepaid expenses	81,551
Fixed assets	803,351
Mineral properties	25,265,347
Accounts payable and accrued liabilities	(73,572)
<b>Net identifiable assets acquired and liabilities assumed</b>	<b>27,695,854</b>

The Company expensed \$674,688 for the allowance of termination benefits related to the certain individuals under management consulting contracts with Northair. Such agreements did not meet the criteria of capitalization as they were deemed post-combination services and were expensed upon completion of the acquisition. As at March 31, 2017, \$197,115 (2016 - \$nil) is due within the next 12 months and the remaining balance of \$144,665 (2016 - \$nil) is due thereafter.

**5 Marketable Securities:**

As at March 31, 2017, the fair value of marketable securities held is \$486,150 (2016 – \$272,590). During the three months ended March 31, 2017, the Company recorded a gain to other comprehensive income of \$1,860 (2016 – \$33,700) for fair value adjustments to marketable securities.

**KOOTENAY SILVER INC.**

(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2017 and 2016****6 Fixed Assets:**

	<b>Vehicle</b>	<b>Office Equipment</b>	<b>Computer Equipment</b>	<b>Leasehold</b>	<b>Land</b>	<b>Total</b>
<b>Cost</b>						
Balance December 31, 2015	290,706	66,485	249,176	60,321	-	666,688
Additions	31,455	-	1,459	-	803,304	836,218
Impaired	-	-	-	-	-	-
Effect of foreign exchange	(10,258)	-	(5,693)	-	-	(15,951)
Balance December 31, 2016	311,903	66,485	244,942	60,321	803,304	1,486,955
Addition	-	-	8,467	-	-	8,467
Effect of foreign exchange	(3,420)	-	(1,810)	-	(5,733)	(10,693)
<b>Balance March 31, 2017</b>	<b>308,483</b>	<b>66,485</b>	<b>251,599</b>	<b>60,321</b>	<b>797,571</b>	<b>1,484,459</b>
<b>Accumulated Depreciation</b>						
Balance December 31, 2015	257,603	46,151	142,445	30,348	-	476,547
Depreciation for year	16,560	3,920	14,021	11,499	-	46,000
Effect of foreign exchange	(8,349)	(190)	(1,590)	-	-	(10,319)
Balance December 31, 2016	265,814	49,881	154,876	41,847	-	512,418
Depreciation for period	2,137	1,114	3,373	3,059	-	9,682
Effect of foreign exchange	(3,731)	(368)	(1,228)	(187)	-	(5,514)
<b>Balance March 31, 2017</b>	<b>264,220</b>	<b>50,627</b>	<b>157,021</b>	<b>44,719</b>	<b>-</b>	<b>516,586</b>
Carrying value December 31, 2016	46,089	16,604	90,066	18,474	803,304	974,537
<b>Carrying value March 31, 2017</b>	<b>44,263</b>	<b>15,858</b>	<b>94,578</b>	<b>15,602</b>	<b>797,571</b>	<b>967,873</b>

**KOOTENAY SILVER INC.**  
(Expressed in Canadian dollars)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

**7 Mineral Properties:**

	MEXICO					Mexico Total	CANADA			Canada Total	2017 Total	2016 Total
	Promontorio	La Cigarra	Sonora Anomalies	Cervantes*	San Diego		Nechako Region	Silver Fox*	Other			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Acquisition Costs</b>												
Balance, beginning	3,658,642	30,203,949	591,681	-	148,868	34,603,140	163,880	50,750	1,365,185	1,579,815	36,182,955	5,852,923
Incurred	-	57,513	-	-	-	57,513	-	-	-	-	57,513	30,330,032
Balance, ending	3,658,642	30,261,462	591,681	-	148,868	34,660,653	163,880	50,750	1,365,185	1,579,815	36,240,468	36,182,955
<b>Exploration Expenditures</b>												
Balance, beginning	31,644,314 <sup>1</sup>	1,233,426	6,614,693	201,111	109,194	39,802,738 <sup>1</sup>	516,892	943,155	5,804,008	7,264,055	47,066,793	45,546,336 <sup>1</sup>
Assaying and Lab	-	37,054	-	-	-	37,054	-	-	-	-	37,054	152,874
Camp Costs	-	7,743	-	8,680	-	16,423	-	-	-	-	16,423	126,592
Drafting	-	11,745	-	-	-	11,745	-	113,422	3,000	116,422	128,167	68,128
Drilling	-	23,460	-	-	-	23,460	-	-	-	-	23,460	642,128
Geological mapping	-	28,119	-	-	-	28,119	-	250	-	250	28,369	130,401
Geophysics	-	-	-	-	-	-	-	-	6,800	6,800	6,800	59,934
Maintenance	-	-	15,226	19,059	37,786	72,071	900	10,239	25,149	36,288	108,359	133,409
Miscellaneous	3,824	-	-	-	-	3,824	-	-	-	-	3,824	19,689
Geological Consulting and Prospecting	-	78,473	12,589	-	6,266	97,328	-	-	22,400	22,400	119,728	549,479
Rock Sampling	-	-	-	-	-	-	-	-	-	-	-	25,750
Metallurgical testing	-	-	-	-	-	-	-	-	-	-	-	-
Incurred	3,824	186,594	27,815	27,739	44,052	290,024	900	123,911	57,349	182,160	472,184	1,908,384
Balance, ending	31,648,138	1,420,020	6,642,508	228,850	153,246	40,092,762	517,792	1,067,066	5,861,357	7,446,215	47,538,977	47,454,720
Total property balance	35,306,780	31,681,482	7,234,189	228,850	302,114	74,753,415	681,672	1,117,816	7,226,542	9,026,030	83,779,445	83,637,675
Recovery of costs	-	-	(3,466,284)	(61,062)	(106,902)	(3,634,248)	-	(923,255)	(2,839,426)	(3,762,681)	(7,396,929)	(7,395,613)
Mineral exploration refund	-	-	-	-	-	-	(78,344)	(70,650)	(236,551)	(385,545)	(385,545)	(385,545)
Proceeds from sale	-	-	-	-	-	-	-	-	(230,000)	(230,000)	(230,000)	(230,000)
Option payment received	(530,717)	-	(8,000)	(44,555)	-	(583,272)	-	-	(121,000)	(121,000)	(704,272)	(509,230)
Impaired or disposed	(537,744)	-	(2,631,194)	(14,034)	-	(3,182,972)	(555,187)	-	(3,359,983)	(3,915,170)	(7,098,142)	(7,098,142)
Carrying value mineral properties	34,238,319	31,681,482	1,128,711	109,199	195,212	67,352,923	48,141	123,911	439,582	611,634	67,964,557	68,019,145

<sup>1</sup>Includes foreign exchange related to translation of foreign operations

\*Earn-in option agreement

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**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 (Note 4).

The La Cigarra project is 100% owned by the Company subject to a 1% net smelter royalty, and the Company has assumed the obligations of Northair under an agreement with DFX Exploration Ltd. (the "DFX Agreement"). Pursuant to the terms of the DFX Agreement, DFX would have been entitled to 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 had been 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.

On April 19, 2016, the Company purchased from Coeur Capital a 2.5% net smelter royalty ("NSR Acquisition") that it held on the La Cigarra project for total consideration of US\$2,500,000 of which US\$500,000 (\$646,025) was paid in cash and US\$2,000,000 was completed through the issuance of 9,629,091 common shares (valued at \$2,648,000) of the Company. 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 right of first 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, the Company formalized and closed an option agreement with Pan American Silver Corporation ("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: (a) 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; (b) cash payments totaling US\$8,050,000 to MJM, US\$250,000 was received on closing of the agreement and US\$150,000 received during the three months ended March 31, 2017; 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.



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#### 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 claim.

##### **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. 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. As at March 31, 2017, the Company has made total cash payments of US\$80,000 and has issued 100,000 shares with a fair value of \$45,000. A 2% net smelter return is payable on the San Diego concession, which can be purchased by the Company for US\$750,000 for each percentile.

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 (the "Second Option") 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. Effective September 30, 2016, the obligations of the option agreement were assigned to Aztec Minerals Corp. from Aztec.

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**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 and has made the total cash payments due under the agreement.

**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") granting 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. 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 50,000 common shares have been issued with a fair value of \$18,250 including 25,000 common shares with a fair value of \$10,500 issued during the year ended December 31, 2016. The Silver Fox is subject 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") granting 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 \$2,500,000 of exploration expenditures on the Properties within a five-year period.

The Two Times Fred property was being optioned to 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 and make a cash payment of \$5 per metre drilled to a maximum of 100,000 metres. The Company has made total cash payments of \$35,000 and issued 115,000 shares with a fair value of 37,950, included in the respective amounts are cash payments of \$15,000 and 40,000 shares with a fair value of \$16,800 issued during the year ended December 31, 2016.

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

**The Fox and Two Times Fred Properties** – Nechako Plateau, British Columbia (continued)

During the year ended December 31, 2011, the Company optioned the Fox property. To maintain its option, the Company is required to 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 fulfilled the required cash payments and issued the final share payment of 35,000 shares with a fair value of \$8,400.

During the year ended December 31, 2015, the Company exercised its option under the Kennedy grubstake agreement subject to the issuance of 100,000 shares over three years. The 2% NSR can be purchased by the Company for \$500,000 per each one-half (0.5%) percentile. The Company has issued 100,000 shares with a fair value of \$36,500, including 50,000 shares with a fair value of \$21,000 issued during the year ended December 31, 2016.

*Property Investigation and Impairment*

During the three months ended March 31, 2017, the Company expended \$95,317 (2016 - \$22,201) related to other property investigation expense and recorded an impairment to mineral properties of \$nil (2016 - \$25,837), 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 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.

On July 28, 2016, the Company closed a brokered private placement (the "Offering") for 12,937,500 units (the "Units") at a price of \$0.40 per Unit (the "Offering Price") for gross proceeds of \$5,175,000. The Company concurrently closed on a non-brokered private placement for gross process of \$854,316 for 2,135,790 Units. Each Unit in the Offering and non-brokered private placement consisted of one common share and one-quarter of one common share purchase warrant ("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 on the TSX-V under the ticker 'KTN.WT'. The Company issued broker compensation warrants with the Offering, exercisable to acquire up to 406,875 common shares of the Company at an exercise price of \$0.55 per share until July 28, 2017.

# KOOTENAY SILVER INC.

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

On April 19, 2016, the Company issued 9,629,091 shares with a fair value of \$2,648,000 to Coeur Capital for the NSR Acquisition on the La Cigarra silver project (Note 7) and on April 21, 2016 issued 53,909,261 shares and 23,103,969 share purchase warrants upon acquisition of Northair (Note 4).

On March 4, 2016, the Company completed a non-brokered private placement for a total of 15,884,459 common shares at a purchase price of \$0.22 per share for total gross proceeds of \$3,553,431 of which Pan American subscribed for 6,793,550 common shares of the Company to hold approximately 10% of the Company's issued and outstanding shares. Pan American has the right to participate in any future equity offerings of the Company to maintain its pro-rata share percentage interest.

#### 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, 2015	20,167,547	\$ 0.71	7,322,000	\$ 0.71
Expired/cancelled	(6,050,000)	1.05	(2,054,000)	0.96
Granted	27,279,166	0.55	-	-
Exercised	(150)	0.55	(192,500)	0.34
Assumed upon Northair transaction	13,998,250	0.71	3,862,250	0.63
Outstanding, December 31, 2016	55,394,813	\$ 0.59	8,937,750	\$ 0.62
Granted	-	-	6,695,000	0.40
Expired/cancelled	(9,635,047)	0.56	-	-
<b>Outstanding, March 31, 2017</b>	<b>45,759,766</b>	<b>\$ 0.60</b>	<b>15,632,750</b>	<b>\$ 0.53</b>

#### Warrants

As at March 31, 2017, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

	Number of Warrants	Exercise Price	Expiry Date
	406,875	0.55	July 28, 2017
	3,586,500	0.55	August 10, 2017
	96,000	0.55	August 10, 2017
	800,000	0.55	August 26, 2017
	13,998,250	0.71	September 5, 2017 <sup>(1)</sup>
	26,872,141	0.55	April 22, 2021
	<b>45,759,766</b>		

<sup>(1)</sup> Assumed from the Northair acquisition.

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

The weighted average remaining life of the outstanding warrants is 2.56 years (2016 – 0.71 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in reserves 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 ratio of 0.35:1 existing warrant outstanding. Additionally, 23,103,969 warrants were issued as part of the consideration transferred to Northair (Note 4).

During the year ended December 31, 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 which 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. The incremental fair value associated with the extension of these warrants was \$514,121, which was calculated using the Black Scholes pricing model. In all other respects, the terms of the warrants remained unchanged. The aforementioned warrants expired unexercised on expiry date.

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

	2016
Risk-free interest rate	0.57% - 0.74%
Expected life of warrants	7 - 60 months
Fair value per warrant issued	\$0.072 - \$0.285
Annualized volatility	82% - 98%
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.

**Options**

The Company has adopted an incentive stock option plan under the rules of the TSX-V pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 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.

During the three months ended March 31, 2017, the Company granted 6,695,000 share purchase options at an exercise price of \$0.40 expiring on January 20, 2022. The share purchase options vest in increments of 25% with the first 25% on grant date and the remaining vesting in three equal increments each six months.

During the three months ended March 31, 2017, share based compensation totalling \$373,246 (2016 - \$37,619) was expensed. As at March 31, 2017, 10,611,500 options (2016 – 5,950,750) with a weighted average exercise price of \$0.59 per option (2016 - \$0.68) were fully vested and exercisable.

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

As at March 31, 2017, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Options	Exercise Price	Expiry Date
297,500	\$ 0.80	June 13, 2017 <sup>(1)</sup>
1,995,000	1.05	November 26, 2017
52,500	0.83	January 10, 2018 <sup>(1)</sup>
439,250	0.63	March 4, 2018 <sup>(1)</sup>
1,760,000	0.66	September 18, 2018
337,750	0.43	May 30, 2019 <sup>(1)</sup>
1,050,000	0.47	September 8, 2019 <sup>(1)</sup>
262,500	0.23	December 17, 2019 <sup>(1)</sup>
348,250	0.23	January 26, 2020 <sup>(1)</sup>
2,395,000	0.35	February 23, 2020
6,695,000	0.40	January 20, 2022
<b>15,632,750</b>		

<sup>(1)</sup> Assumed from the Northair acquisition.

The weighted average remaining life of the options is 3.11 years (2016 – 2.69 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 three months ended March 31, 2017 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2017	2016
Risk-free interest rate	<b>1.02%</b>	0.67% - 0.74%
Expected life of options	<b>5 years</b>	1-4 years
Fair value per option granted	<b>\$0.223</b>	\$0.069 - \$0.260
Annualized volatility	<b>84%</b>	85% - 98%
Forfeiture rate	<b>0.00%</b>	0.00%
Dividend rate	<b>0.00%</b>	0.00%

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

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.

**Loss per share**

The calculation of basic loss per share for the three months ended March 31, 2017 was based on the loss of \$1,147,502 (2016 - \$172,488) and the weighted average number of common shares outstanding of 174,697,376 (2016 – 82,089,381), respectively. The Company does not have any instruments that would give rise to a dilution effect as of March 31, 2017 and 2016. As at March 31, 2017, the Company has 15,632,750 options and 45,759,766 warrants that are anti-dilutive and thus, not included in diluted loss per share.

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**9 Receivables:**

The Company's receivables are as follows:

	March 31, 2017	March 31, 2016
IVA/GST receivable	\$ 194,122	\$ 234,311
Receivable	318,795	221,661
Advances	49,541	26,477
<b>Total</b>	<b>\$ 562,458</b>	<b>\$ 386,764</b>

**10 Income Taxes:**

As at December 31, 2016, the Company has non-capital loss carryforwards for Canadian tax purposes of approximately \$20,469,415 (2015: \$13,633,193) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canadian		
Expiration		Total
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
2035		2,002,003
2036		2,957,025
<b>Total</b>	<b>\$</b>	<b>20,469,615</b>

As at December 31, 2016, the Company has net capital loss carryforwards for Canadian tax purposes of approximately \$436,706 (2015: \$397,544) which may be carried forward indefinitely to apply against future capital gains for Canadian income tax purposes, subject to final determination by the tax authorities.

As at December 31, 2016, the Company had non-capital loss carry forwards for Mexican income tax purposes of approximately \$941,733 from the Company's Mexico subsidiaries available to reduce taxable income in Mexico expiring in various years from 2024 to 2026.

		Mexico
Expiry		Total
2024	\$	750,469
2025		5,569
2026		185,694
<b>Total</b>	<b>\$</b>	<b>941,732</b>

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**11 Supplemental Disclosure of Cash and Non-Cash Activities:**

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

	<b>2017</b>	2016
Mineral property recoveries included in receivables and advances	<b>21,243</b>	17,848
Mineral property costs included in accounts payable	<b>34,621</b>	27,012

**12 Related Party Transactions and Balances:**

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

	<b>2017</b>		2016
Management fees charged by companies controlled by a director and/or officers	<b>\$ 143,250</b>	\$	125,750
Consulting, administrative and geological fees charged by a company with common officers	<b>30,000</b>		30,000
	<b>\$ 173,250</b>	\$	155,750

The Company has entered into a consulting agreement dated January 1, 2008 with Makwa Exploration Ltd. ("Makwa") for the services of James McDonald to act as the Company's President and CEO, and with Manly Capital Corp. ("Manly") for the services of Kenneth Berry to act as the Company's Chairman. The base monthly fee for Makwa was amended effective January 1, 2017 to \$20,833, the Manly amount remains at \$15,000.

Effective September 1, 2008, the Company entered into an administrative and geological services agreement with a private company indirectly related to two common directors, which provides services to the Company including assisting in professional analysis, geological personnel, planning of exploration programs, promotional materials; providing access to financial and secretarial services and providing such other additional instructions and directions as the Company may require. For the three months ended March 31, 2017, the Company incurred expenses \$30,000 (2016 - \$30,000) under the administrative services contract.

In addition to the above:

- a) Included in marketable securities as at March 31, 2017 is \$302,500 (2016 - \$204,500) market value of shares received from companies with directors in common.
- b) Included in exploration recovery of costs as at March 31, 2017 is \$1,232,393 (2016 - \$1,239,657) received from joint venture partners who have a common director and a common officer.
- c) Included in accounts receivable as at March 31, 2017 is \$148,944 (2016 - \$93,221) from companies who have common directors or officers.
- d) Included in accounts payable as at March 31, 2017 is \$33,231 (2016 - \$105,328) to companies who have common directors or officers.
- e) For the three months ended March 31, 2017, the Company incurred \$22,000 (2016 - \$21,000) for compensation to directors. As at March 31, 2017, \$22,000 (2016 - \$21,000) is held in accrued liabilities.



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**13 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 non-current liabilities by geographic location are as follows:

	<b>March 31, 2017</b>	December 31, 2016
<b>Canada:</b>		
Current assets	<b>\$ 5,752,068</b>	\$ 7,071,975
Mineral properties	<b>611,634</b>	429,474
Non-current assets	<b>163,318</b>	160,121
Current liabilities	<b>(502,764)</b>	(688,570)
Non-current liabilities	<b>(144,665)</b>	(144,665)
	<b>\$ 5,879,591</b>	\$ 6,828,335
<b>Mexico:</b>		
Current assets	<b>\$ 663,387</b>	\$ 474,041
Mineral properties	<b>67,352,923</b>	67,589,671
Non-current assets	<b>917,596</b>	927,457
Current liabilities	<b>(57,205)</b>	(40,597)
	<b>\$ 68,876,701</b>	\$ 68,950,572

**14 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 March 31, 2017:

2017		20,925
2018		16,275
	<u>\$</u>	<u>37,200</u>

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 March 31, 2017:

2017		3,051
2018		2,373
	<u>\$</u>	<u>5,424</u>

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**15 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 and termination benefit 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 interim 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.

As at March 31, 2017, 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 19 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.

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**15 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. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

The balances denominated in foreign currency are as follows:

	<b>March 31, 2017</b>	December 31, 2016
	<b>US\$</b>	US\$
Cash and cash equivalents	<b>2,290,406</b>	1,952,106
Receivables and advances	<b>124,121</b>	641,601
Trade accounts payable and accrued liabilities	<b>17,411</b>	4,950
	<b>Mexican Peso</b>	Mexican Peso
Cash and cash equivalents	<b>1,786,614</b>	598,552
Receivables and advances	<b>18,342,471</b>	17,372,481
Trade accounts payable and accrued liabilities	<b>2,458,391</b>	1,369,395

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 US Dollar and Mexican Peso exchange rate could have an collective impact of approximately +/- \$330,000. 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 period-end would not have a material impact on the Company's consolidated interim financial statements.

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**15 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:

March 31, 2017		Level 1		Level 2		Level 3		Total
Marketable securities	\$	486,150	\$	-	\$	-	\$	486,150
Cash and cash equivalents	\$	5,251,520	\$	-	\$	-	\$	5,251,520
December 31, 2016		Level 1		Level 2		Level 3		Total
Marketable securities	\$	484,290	\$	-	\$	-	\$	484,290
Cash and cash equivalents	\$	5,789,615	\$	-	\$	-	\$	5,789,615

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. The Company's carrying values of receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

**16 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 months ended March 31, 2017.