KOOTENAY SILVER INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended

March 31, 2016

and

March 31, 2015

(Unaudited)

(Expressed in Canadian dollars)

Notice of no Auditor review of Interim Financial Statements

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

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

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

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

KOOTENAY SILVER INC.
(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Exhibit 1

		March 31, 2016		December 31, 2015
ASSETS				
Current:				
Cash and cash equivalents	**$**	**2,011,950**	$	730,682
Receivables and advances (Note 8, 11)		**455,972**		386,764
Prepaid expenses		**444,575**		113,432
Marketable securities (Note 4)		**272,590**		238,890
Total current assets		**3,185,087**		1,469,768
Non-current assets:				
Equipment (Note 5)		**172,734**		190,141
Advances and deposits		**89,977**		89,977
Mineral properties (Note 6)		**37,116,815**		38,286,702
Total Assets	**$**	**40,564,613**	$	40,036,588
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities (Note 11)	**$**	**664,202**	$	488,033
Equity:				
Share capital (Note 7)		**52,189,349**		50,397,700
Contributed surplus (Note 7)		**19,923,825**		19,886,206
Accumulated other comprehensive loss (Exhibit 4)		**3,765,004**		4,783,667
Deficit		**(35,977,767)**		(35,519,018)
Total Equity		**39,900,411**		39,548,555
Total liabilities and equity	**$**	**40,564,613**	$	40,036,588

Approved on Behalf of the Board:

"James McDonald"
Director

"Jon Morda"
Director

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF LOSS

Exhibit 2

		Three months ended March 31, 2016		Three months ended March 31, 2014
General and Administrative Expenses				
Depreciation (Note 5)	**$**	**11,553**	$	14,431
Office and general (Note 11)		**328,932**		313,539
Management fees (Note 11)		**85,250**		89,750
Share based payments (Note 7)		**37,619**		201,568
Professional fees		**161,190**		107,267
Regulatory and filing fees		**17,506**		28,600
Rent		**24,072**		21,759
Loss before Exploration and Other Items		**666,122**		776,914
Exploration Expenditures				
Mineral property investigation (Note 6)		**22,201**		18,168
Impairment of mineral property (Note 6)		**25,837**		17,343
Mining exploration refund previously impaired properties		**(76,403)**		-
		(28,365)		35,511
Other Items				
Foreign exchange (gain)/loss		**(170,251)**		(43,045)
Finance income		**(8,757)**		(12,445)
		(179,008)		(55,490)
Loss for the period		**458,749**		756,935
Basic and Diluted Loss per Share (Note 7)	**$**	**(0.006)**	$	(0.010)
Weighted Average Number of Shares Outstanding		**82,089,381**		73,769,754

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE (INCOME)/LOSS

Exhibit 3

		Three months ended March 31, 2016		Three months ended March 31, 2015
Loss for the period	**$**	**458,749**	$	756,935
Other comprehensive (income)/loss				
Unrealized (income)/loss on available-for-sale financial assets arising during the period		**(33,700)**		24,425
Foreign currency translation differences of foreign operations		**1,052,363**		(2,077,371)
Total other comprehensive (income)/loss		**1,018,663**		(2,052,946)
Comprehensive (income)/loss	**$**	**1,477,412**	$	(1,296,011)

- see accompanying notes -

KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Exhibit 4

	Number of Shares		Capital Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance, December 31, 2014	72,230,683	$	48,935,618	$	18,703,382	$	(716,130)	$	(31,990,627)	$	34,932,243
Shares issued, net of issuance costs	6,870,714		1,416,795		659,868		-		-		2,076,663
Acquisition of mineral properties	320,000		120,900		-		-		-		120,900
Share based payment	-		-		447,343		-		-		447,343
Warrant expiration date amendment	-		(75,613)		75,613		-		-		-
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		16,075		-		16,075
Reclassification adjustment for losses on available-for-sale	-		-		-		729,580		-		729,580
Foreign currency translation differences of foreign operations	-		-		-		4,754,142		-		4,754,142
Loss for the year	-		-		-		-		(3,528,391)		(3,528,391)
Balance, December 31, 2015	79,421,397	$	50,397,700	$	19,886,206	$	4,783,667	$	(35,519,018)	$	39,548,555
Shares issued, net of issuance costs	9,090,909		1,791,649		-		-		-		1,791,649
Share based payment	-		-		37,619		-		-		37,619
Unrealized gain on available-for-sale financial assets arising during the period	-		-		-		33,700		-		33,700
Foreign currency translation differences of foreign operations	-		-		-		(1,052,363)		-		(1,052,363)
Loss for the period	-		-		-		-		(458,749)		(458,749)
Balance, March 31, 2016	88,512,306	$	52,189,349	$	19,923,825	$	3,765,004	$	(35,977,767)	$	39,900,411

- see accompanying notes -

KOOTENAY SILVER INC.
(Expressed in Canadian dollars)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Exhibit 5

		Three months ended March 31, 2016		Three months ended March 31, 2015
Cash Flows from Operating Activities				
Loss for the period	**$**	**(458,749)**	$	(756,935)
Add items not involving any outlay of cash:				
Share based payment		**37,619**		201,568
Impairment of mineral property		**25,838**		17,343
Depreciation		**11,553**		14,431
		(383,739)		(523,593)
Changes in non-cash working capital balances:				
Receivable and advances		**(81,167)**		131,086
Prepaid expenses		**(331,590)**		(166,781)
Accounts payable and accrued liabilities		**179,964**		(47,335)
		(616,532)		(606,713)
Cash Flows from Financing Activities				
Shares issued, net of share issuance costs		**1,791,649**		789,963
Receipt of mineral property payment		**343,100**		
		2,134,749		789,963
Cash Flows from Investing Activities				
Investment in mineral properties		**(303,419)**		(752,802)
Investment in equipment		**(4,550)**		(2,186)
Receipt of mining exploration refund		**216,726**		-
		(91,243)		(754,968)
Effect of foreign exchange rate changes on cash		**(145,704)**		42,245
Increase (Decrease) in Cash and Cash Equivalents during the period		**1,281,270**		(529,473)
Cash and Cash Equivalents, Beginning of the year		**730,682**		2,360,822
Cash and Cash Equivalents, End of the period	**$**	**2,011,950**	$	1,831,349

Supplemental Disclosure of Cash and Non-Cash Activities (Note 10)

- see accompanying notes -

((Expressed in Canadian dollars)

1 Reporting Entity:

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

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

Going Concern

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

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. During the three months ended March 31, 2016, the Company raised aggregate gross proceeds of $2,000,000 from the closing of a non-brokered private placement. Subsequent to March 31, 2016, the Company completed the acquisition by way of plan of arrangement of Northair Silver Corp. as well as a fully subscribed additional investment with Pan American Silver Corp. totalling $1,553,431 (see Note 17). While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

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

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

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

	March 31, 2016	March 31, 2015
Deficit	**$ 35,977,767**	**$ 32,747,562**
Working capital	**$ 2,520,885**	**$ 2,512,340**

2 Basis of Presentation:

Statement of Compliance

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

The policies applied in these consolidated interim financial statements are consistent with the accounting policies disclosed in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2015. These consolidated interim financial statements should be read in conjunction with the Company's audited consolidated statements for the year ended December 31, 2015.

These consolidated interim financial statements were authorized for issue by the Audit Committee of the Company as authorized by the Board of Directors on May 30, 2016.

Functional and presentation currency

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

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

3 Significant Accounting Policies:

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

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

Basis of measurement

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

Consolidation

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

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

3 Significant Accounting Policies *(continued):*

Critical accounting estimates and judgements

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

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

(i) Equipment

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

(ii) Exploration and evaluation assets

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

(iii) Decommissioning liabilities

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

(iv) Share based payments

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

(v) Taxes

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

3 Significant Accounting Policies *(continued)*:

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

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

Foreign currency transactions

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

Cash and cash equivalents

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

Future accounting standards issued but not yet adopted

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

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

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

4 Marketable Securities:

Marketable securities are classified as available for sale financial instruments, which are adjusted to market value at the end of the reporting period. As at March 31, 2016, the market value of securities held is $272,590 (2015 – $173,390). The Company recorded other comprehensive income of $33,700 (2015 – loss of $24,425) for fair value adjustments to marketable securities.

(Expressed in Canadian dollars)

5 Equipment:

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Total
Cost					
Balance December 31, 2014	**232,691**	**66,485**	**216,142**	**60,321**	**575,639**
Additions	-	-	4,550	-	4,550
Impaired	-	-	(2,659)	-	(2,659)
Effect of foreign exchange	58,015	-	31,143	-	89,158
Balance December 31, 2015	**290,706**	**66,485**	**249,176**	**60,321**	**666,688**
Effect of foreign exchange	(15,149)	-	(10,458)	-	(35,607)
Balance March 31, 2016	**275,557**	**66,485**	**238,718**	**60,321**	**631,081**
Accumulated Depreciation					
Balance December 31, 2014	**187,238**	**41,484**	**111,044**	**18,001**	**357,767**
Depreciation for year	19,382	4,662	18,434	12,347	54,825
Effect of foreign exchange	50,983	5	12,967	-	63,955
Balance December 31, 2015	**257,603**	**46,151**	**142,445**	**30,348**	**476,547**
Depreciation for period	4,145	1,065	3,468	2,875	11,553
Effect of foreign exchange	(13,804)	(133)	(9,341)	-	(23,278)
Balance March 31, 2016	**247,944**	**47,083**	**136,572**	**33,223**	**464,822**

Carrying Value December 31, 2015	**33,103**	**20,334**	**106,731**	**29,973**	**190,141**
Carrying Value March 31, 2016	**27,613**	**19,402**	**98,621**	**27,098**	**172,734**

(Expressed in Canadian dollars)

6 Mineral Properties:

	MEXICO					CANADA					
	Promontorio	**Sonora Anomalies**	**Cervantes***	**San Diego***	**Mexico Total**	**Nechako Region**	**Silver Fox***	**Other**	**Canada Total**	**2016 Total**	**2015 Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Acquisition Costs											
Balance, beginning	3,658,642	591,681	-	94,485	4,344,808	153,380	40,250	1,314,485	1,508,115	5,852,923	5,629,727
Incurred	-	-	-	-	-	-	-	-	-	-	223,196
Balance, ending	3,658,642	591,681	-	94,485	4,344,808	153,380	40,250	1,314,485	1,508,115	5,852,923	5,852,923
Exploration Expenditures											
Balance, beginning	31,932,852[1]	6,520,166	183,816	104,921	38,741,755	481,707	703,346	5,710,860	6,895,913	45,637,668[1]	44,275,874[1]
Assaying and Lab	4,344	854	-	-	5,198	-	-	-	-	5,198	172,784
Camp Costs	14,248	-	-	-	14,248	-	-	-	-	14,248	194,675
Drafting	8,769	1,002	-	-	9,771	350	8,950	-	9,300	19,071	129,727
Drilling	-	-	-	-	-	-	-	-	-	-	487,495
Geological mapping	3,488	251	-	-	3,739	125	328	-	453	4,192	98,587
Maintenance	25,386	4,357	462	-	30,205	900	-	1,801	2,701	32,906	314,717
Miscellaneous	5,032	-	-	-	5,032	-	-	-	-	5,032	24,071
Prospecting	50,503	6,582	5,631	54	62,770	-	-	4,500	4,500	67,270	663,378
Rock Sampling	6,750	2,878	-	-	9,628	-	-	-	-	9,628	72,000
Metallurgical testing	-	-		-	-	-	-	-	-	-	29,439
Incurred	118,520	15,924	6,093	51	140,591	1,375	9,278	6,301	16,954	157,545	2,186,873
Balance, ending	32,051,372	6,536,090	189,909	104,975	38,882,346	483,082	712,624	5,717,161	6,912,867	45,795,213	46,462,747
Total property balance	35,710,014	7,127,771	189,909	199,460	43,227,154	636,462	752,874	7,031,646	8,420,982	51,648,136	52,315,670
Recovery of costs	-	(3,466,284)	(16,021)	(53,491)	(3,535,796)	-	(162,713)	(2,676,866)	(2,839,579)	(6,375,375)	(6,356,350)
Mineral exploration refund	-	-	-	-	-	(78,344)	(70,650)	(212,083)	(385,545)	(385,545)	(212,707)
Proceeds from sale	-	-	-	-	-	-	-	(230,000)	(230,000)	(230,000)	(230,000)
Option payment received	(323,227)	(8,000)	(13,218)	-	(344,445)	-	-	(121,000)	(121,000)	(465,445)	(142,218)
Impaired or disposed	(537,744)	(2,608,008)	(14,034)	-	(3,159,786)	(555,187)	-	(3,359,983)	(3,915,170)	(7,074,956)	(7,087,693)
Carrying value mineral property	34,849,043	1,045,479	146,636	145,969	36,187,127	2,931	519,511	407,246	929,688	37,116,815	38,286,702

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

6 Mineral Properties *(continued)***:**

Promontorio - Sonora State, Mexico

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

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

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

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

Santa Lucia - Southern Sonora State, Mexico

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

San Diego – Northwest Sonora, Mexico

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

6 Mineral Properties *(continued)***:**

During the year ended December 31, 2015, the Company announced that it had entered into an option agreement through its wholly owned Mexican subsidiary, MJM, with Oro de Altar ("ODA") now a wholly owned Mexican subsidiary of Alamos Gold (formerly AuRico Gold Inc.). The option allows ODA to earn up to 100% interest in the San Diego property.

The terms of the agreement allow ODA to earn a 65% interest by spending an aggregate total US$3 million in exploration expenditures by April 8, 2018, and to pay an aggregate total of US$480,000 by December 10, 2017. Upon earning the initial 65% interest, ODA will have the right to acquire a 100% interest by paying the Company US$8.00 per gold or gold equivalent ounce of resource based on the preparation of a NI 43-101 compliant resource statement, which must be completed no later than 90 days after April 8, 2018. On acquisition by ODA of 100% interest, MJM will receive a 2.5% net smelter royalty. If ODA does not acquire the remaining 35%, a one-time cash payment to MJM of US$250,000 becomes payable and a joint venture will be formed to further develop the project.

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

Cervantes – Sonora State, Mexico

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

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

Copley Property – Nechako Plateau, British Columbia

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

6 Mineral Properties *(continued)***:**

Silver Fox - Southern British Columbia

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

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

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

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

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

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

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

(Expressed in Canadian dollars)

6 Mineral Properties *(continued)*:

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

Property Investigation and Impairment

During the three months ended March 31, 2016, the Company expended $22,201 (2015 - $18,168) related to other property investigation expense and recorded an impairment to mineral properties of $25,837 (2015 - $17,343), which is related to mineral properties located in both Mexico and Canada. Once the Company has made its evaluations, the properties will be either be abandoned or acquired under the terms of the Grubstake Agreements.

Title to Mineral Property Interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

7 Share Capital and Reserves:

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

During the three months ended March 31, 2016, the Company completed a non-brokered private placement which was fully subscribed Pan American Silver for 9,090,909 shares at a price of $0.22 per share, for gross proceeds of $2 million.

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

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2014	**16,421,833**	**$**	**0.84**	**5,142,000**	**$**	**0.89**
Granted	**6,870,714**		**0.57**	**2,485,000**		**0.35**
Expired/Cancelled	**(3,125,000)**		**1.08**	**(305,000)**		**0.81**
Outstanding, December 31, 2015	**20,167,547**		**$0.71**	**7,322,000**	**$**	**0.71**
Expired/Cancelled	**-**		**-**	**(750,000)**		**1.00**
Outstanding, March 31, 2016	**20,167,547**		**$0.71**	**6,572,000**	**$**	**0.68**

(Expressed in Canadian dollars)

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

Warrants

As at March 31, 2016, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
5,443,500	0.55	July 18, 2016
1,803,333	0.55	August 18, 2016
3,430,000	1.30	October 25, 2016
500,000	1.30	October 30, 2016
2,120,000	0.60	December 23, 2016
2,388,214	0.60	February 2, 2017
3,586,500	0.55	August 10, 2017
96,000	0.55	August 10, 2017
800,000	0.55	August 26, 2017
20,167,547		

The weighted average remaining life of the outstanding warrants is 0.71 years (2015 – 1.07 years). The fair value of warrants is estimated using the Black Scholes option-pricing model. Warrants are included in contributed surplus until exercised, at which time they are transferred into share capital.

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

On February 2, 2015, the Company closed the final tranche of its December 10, 2014 announced non-brokered private placement and raised gross aggregate total proceeds of $1,577,875 by issuing an aggregate total of 4,508,214 units at a purchase price of $0.35 per unit. Each unit consisted of one common share and one transferable share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.60. The private placement was completed in two tranches, with the first tranche of 2,120,000 units closed December 23, 2014 and the final tranche closed February 2, 2015, with the applicable warrants expiring on December 23, 2016 and February 2, 2017, respectively. The Company paid total share issuance costs of $23,887 and cash finder’s fees of $50,415.

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

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

(Expressed in Canadian dollars)

7 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.

Options

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

For the three months ended March 31, 2016, the Company did not grant any share purchase options.

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

Share based payments totalling $37,619 (2015 - $201,568) were expensed during the three months ended March 31, 2016. As at March 31, 2016, 5,950,750 options (2015 – 5,763,250) with a weighted average exercise price of $0.68 per option (2015 - $0.84) were fully vested and exercisable. During the three months ended March 31, 2016, 750,000 (2015 – nil) options expired unexercised.

As at March 31, 2016, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Shares	Exercise Price	Expiry Date
200,000	1.20	December 11, 2016
2,035,000	1.05	November 26, 2017
1,852,000	0.66	September 18, 2018
2,485,000	0.35	February 23, 2020
6,572,000		

The weighted average remaining life of the options is 2.69 years (2015 – 3.38 years). For stock options granted to employees, officers, directors and consultants, share based payment expense is measured at fair value and recognized over the vesting period from the date of grant. The fair value of stock options granted during the year ended December 31, 2015 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

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

(Expressed in Canadian dollars)

7 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.

Earnings per share

The calculation of basic loss per share for the three ended March 31, 2016 was based on the loss of $172,488 (2015 - $756,935) and the weighted average number of common shares outstanding of 82,089,381 (2015 – 73,769,754) respectively. The Company does not have any instruments that would give rise to a dilution effect as of March 31, 2016. The Company has 6,757,000 options and 20,167,547 warrants that are anti-dilutive and thus, not included in diluted loss per share as of March 31, 2016.

8 Receivables:

The Company's receivables are as follows:

	March 31, 2016	December 31, 2015
IVA/GST receivable	**$ 234,311**	$ 219,530
Receivable	**221,661**	154,692
Advances receivable	**26,477**	12,542
Total	**$ 386,764**	$ 386,764

9 Income Taxes:

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

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

(Expressed in Canadian dollars)

9 Income Taxes *(continued):*

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

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

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

10 Supplemental Disclosure of Cash and Non-Cash Activities:

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

		2016	2015
Acquisition of shares as proceeds from option of mineral property	**$**	**-**	(24,000)
Issuance of share capital for acquisition mineral property interests		**-**	
Shares received as proceeds on sale of mineral property		**-**	(230,000)
Receivable and advances for mineral property costs		**17,848**	(25,011)
Mineral property costs included in accounts payable		**27,012**	(3,275)

11 Related Party Transactions and Balances:

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

		2016		2015
Management fees charged by companies controlled by a director and/or officers	**$**	**125,750**	$	125,750
Consulting, administrative and geological fees charged by a company with common officers		**30,000**		30,000

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

Effective September 1, 2008, the Company entered into an administrative services agreement with Touchstone Capital Corp. a private company indirectly related to two common officers of the Company. Touchstone provides services to the Company including assisting in professional analysis and planning of exploration programs, promotional materials; providing access to secretarial services and providing such other additional instructions and directions as the Company may require. For the period ended March 31, 2016, the Company incurred expenses of $30,000 (2015 - $30,000) under the administrative services contract.

(Expressed in Canadian dollars)

11 Related Party Transactions and Balances *(continued)***:**

In addition to the above:

a) Included in marketable securities as at March 31, 2016 is $204,500 (2015 - $95,000) market value of shares received from companies with directors in common.

b) Included in exploration recovery of costs as at March 31, 2016 is $1,239,657 (2015 - $1,181,621) received from joint venture partners who have a common director and a common officer.

c) Included in accounts receivable as at March 31, 2016 is $93,221 (2015 - $94,194) from companies who have common directors or officers.

d) Included in accounts payable as at March 31, 2016 is $105,328 (2015 - $147,188) to companies who have common directors or officers.

e) Included in accrued payables as at March 31, 2016 is $95,000 (2015 - $nil) for consulting fees charged by certain directors and officers of the Company.

f) For the period ended March 31, 2016, the Company incurred $21,000 (2015 - $15,000) for compensation to directors. As at March 31, 2016, $21,000 (2015 - $15,000) is held in accounts payable and accrued liablities.

12 Contingent Liabilities:

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

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 deferred costs by geographic location are as follows:

	March 31, 2016	December 31, 2015
Canada:		
Current asset	**$ 2,633,634**	$ 1,137,756
Mineral property	**929,688**	1,086,048
Other Non-current asset	**152,269**	155,721
Current liability	**(567,296)**	(456,359)
	$ 3,148,295	$ 1,923,166

	March 31, 2016	December 31, 2015
Mexico:		
Current asset	**$ 551,453**	$ 332,012
Mineral property	**36,833,581**	37,200,654
Other Non-current asset	**110,442**	124,397
Current liability	**(62,224)**	(31,674)
	$ 37,433,252	$ 37,625,389

(Expressed in Canadian dollars)

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, 2016:

2016		20,925
2017		27,900
2018		16,275
	$	65,100

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, 2016:

2016		3,051
2017		4,068
2018		2,373
	$	9,492

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. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity and due to the insignificant carrying values of long term financial instruments except for marketable securities, which are measured at fair value through other comprehensive income at each reporting period end.

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

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

(a) Credit risk:

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

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

(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 March 31, 2016, 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 dollar, the United States dollar and the Mexican Peso. The Company's transactions are denominated in Canadian dollars, United States dollars and the Mexican Peso. The Company has not entered into any arrangements to hedge currency risk but does maintain cash balances within each currency with a predominate balance held in Canadian Dollars. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

The balances denominated in foreign currency are as follows:

	March 31, 2016	December 31, 2015
	US$	US$
Cash	**267,399**	189,295
Trade accounts payable and accrued liabilities	**24,165**	14,635
	Mexican Peso	Mexican Peso
Cash	**467,812**	1,524,185
Receivables and advances	**2,379,514**	2,188,978
Trade accounts payable and accrued liabilities	**644,770**	376,384

(Expressed in Canadian dollars)

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

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 +/- $16,383 on the Company's net loss. This result arises primarily because the Company has Mexican Peso denominated cash accounts, accounts receivable and short term liabilities. The actual results of a change in foreign exchange rates would depend on the foreign currency denominated assets and liabilities at the time and could cause the impact on the Company's results to differ from above.

(ii) Commodity price risk:

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

(iii) Interest rate risk:

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

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, 2016		**Level 1**		**Level 2**		**Level 3**		**Total**
Marketable securities	$	272,590	$	-	$	-	$	238,890
Cash and Cash Equivalents	$	2,011,950	$	-	$	-	$	730,682
December 31, 2015		Level 1		Level 2		Level 3		Total
Marketable securities	$	238,890	$	-	$	-	$	238,890
Cash and Cash Equivalents	$	730,682	$	-	$	-	$	730,682

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

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

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

There has been no change between Levels during the period.

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, 2016.

17 Subsequent Events:

On April 26, 2016, Pan American provided notice of their intent to exercise its second tranche option in the Company by subscribing for a further 6,793,550 common shares for an aggregate subscription price of $1,553,431. in order to maintain a ten percent (10%) ownership interest in the issued and outstanding shares of the Company. The second tranche closed on April 29, 2016. As a result of the transaction, Pan American owns approximately 10% of the Company's issued and outstanding shares on a non-diluted basis. Subject to certain conditions, Pan American 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.

On January 13, 2016, the Company announced the execution of a Binding Letter Agreement pursuant to which the Company would acquire all of the issued and outstanding common shares of Northair Silver Corp ("Northair"). The transaction closed on April 21, 2016, and Northair became a wholly-owned subsidiary of the Company As consideration for the arrangement, each Northair shareholder received, in respect of each Northair common share held, 0.35 of a common share of the Company, plus 0.15 of a tradeable warrant to purchase Company common shares at an exercise price of $0.55 for a period of five years from closing. Upon completion, former shareholders of Northair hold approximately 40% of the shares of the Company on an outstanding basis. A total of 53,909,261 common shares were issued and 23,103,969 warrants were listed under the symbol KTN.WT.

On March 29, 2016 the Company announce that it has signed an agreement with Coeur Capital, Inc. ("Coeur") to acquire its 2.5% net smelter return royalty ("NSR") on future production from Northair's La Cigarra project. Under the terms of the agreement, the Company paid to Coeur US$250,000 in cash upon signing and a second cash payment of US$250,000 was made on April 19, 2016 (the "Closing Date"). In addition, the Company issued to Coeur on the Closing Date common shares of the Company equal to US$2,000,000 at a share price of $0.275 per share which resulted in the issuance of 9,629,091 common shares. The shares issued will be subject to a statutory hold period of four months plus one day from the Closing Date under applicable Canadian securities laws. Upon issuance of the Shares and on closing of the acquisition of Northair, Coeur will hold an aggregate of 16,751,591 common shares of the Company or approximately 10.9% of the issued and outstanding shares of the Company.