



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the period ended**

**March 31, 2018**

**and**

**March 31, 2017**

**(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.

Index

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

<b>CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION .....</b>	<b>2</b>
<b>CONSOLIDATED INTERIM STATEMENTS OF LOSS .....</b>	<b>3</b>
<b>CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS .....</b>	<b>4</b>
<b>CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY .....</b>	<b>5</b>
<b>CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS.....</b>	<b>6</b>
<b>NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS .....</b>	<b>7</b>

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	Exhibit 1	
	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 3,914,438	\$ 4,868,356
Receivables and advances (Note 9, 12)	629,574	582,658
Prepaid expenses	207,436	277,738
Marketable securities (Note 5)	543,575	689,515
	<b>5,295,023</b>	<b>6,418,267</b>
<b>Non-current assets:</b>		
Fixed assets (Note 6)	939,567	961,943
Exploration advances and deposits	78,500	78,500
Mineral properties (Note 7)	70,174,711	69,152,883
	<b>76,487,801</b>	<b>76,611,593</b>
<b>Total assets</b>	<b>\$ 76,487,801</b>	<b>\$ 76,611,593</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (Note 12)	\$ 206,535	\$ 436,653
Exploration program advance	74,525	105,901
Current portion of termination benefit liability (Note 4)	62,277	212,577
	<b>343,337</b>	<b>755,131</b>
<b>Long-term liabilities:</b>		
Non-current portion of termination benefit liability (Note 4)	62,165	62,165
<b>Total liabilities</b>	<b>405,502</b>	<b>817,296</b>
<b>Shareholders' equity:</b>		
Share capital (Note 8)	83,780,987	83,681,730
Reserves (Note 8)	30,910,816	30,804,341
Accumulated other comprehensive loss (Exhibit 4)	4,042,728	3,577,012
Deficit	(42,652,232)	(42,268,786)
<b>Total shareholders' equity</b>	<b>76,082,299</b>	<b>75,794,297</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 76,487,801</b>	<b>\$ 76,611,593</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,

	2018	2017
<b>General and administrative expenses</b>		
Office and general (Note 12)	\$ 274,335	\$ 283,834
Option based compensation (Note 8)	48,882	373,246
Professional fees	139,232	150,906
Management fees (Note 12)	48,250	93,250
Rent	26,079	21,978
Regulatory and filing fees	21,555	14,874
Depreciation (Note 6)	11,534	9,682
<b>Loss before exploration and other items</b>	<b>569,867</b>	<b>947,770</b>
<b>Exploration</b>		
Mineral property investigation (Note 7)	16,382	95,317
	<b>16,382</b>	<b>95,317</b>
<b>Other Items</b>		
Foreign exchange (gain)/loss	(126,249)	115,766
Administration income	(2,666)	-
IVA recovery	(51,453)	-
Finance income	(22,435)	(11,341)
	<b>(202,803)</b>	<b>104,415</b>
<b>Loss for the period</b>	<b>383,446</b>	<b>1,147,502</b>
<b>Basic and diluted loss per share (Note 8)</b>	<b>\$ (0.002)</b>	<b>\$ (0.007)</b>
<b>Weighted average number of shares outstanding</b>	<b>194,844,023</b>	<b>174,697,376</b>

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

Exhibit 3

	Three months ended March 31,	
	2018	2017
<b>Loss for the period</b>	<b>\$ 383,446</b>	<b>\$ 1,147,502</b>
Other comprehensive (income)/loss		
Unrealized loss on available-for-sale financial assets arising during the period	<b>145,940</b>	(1,860)
Foreign currency translation differences of foreign operations	<b>(611,656)</b>	253,507
Total other comprehensive loss/(income)	<b>(465,716)</b>	251,647
<b>Comprehensive income for the period</b>	<b>\$ (82,270)</b>	<b>\$ 1,399,149</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, 2016</b>	174,697,376	\$ 80,861,278	\$ 28,565,345	\$ 5,491,942	\$ (39,139,658)	\$ 75,778,907
Shares issued, net of issuance costs	-	3,288	-	-	-	3,288
Option based compensation	-	-	373,246	-	-	373,246
Unrealized gain on available-for-sale financial assets arising during the year	-	-	-	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
<b>Balance, December 31, 2017</b>	194,246,856	\$ 83,681,730	\$ 30,804,341	\$ 3,577,012	\$ (42,268,786)	\$ 75,794,297
Shares issued, net of issuance costs	545,000	76,757	28,885	-	-	105,642
Acquisition of mineral properties	125,000	22,500	-	-	-	22,500
Option based compensation	-	-	77,590	-	-	77,590
Unrealized loss on available-for-sale financial assets arising during the period	-	-	-	(145,940)	-	(145,940)
Foreign currency translation differences of foreign operations	-	-	-	611,656	-	611,656
Loss for the period	-	-	-	-	(383,446)	(383,446)
<b>Balance, March 31, 2018</b>	194,916,856	\$ 83,780,987	\$ 30,910,816	\$ 4,042,728	\$ (42,652,232)	\$ 76,082,299

- see accompanying notes -

# KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

## CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Exhibit 5	
	Three months ended March 31,	
	2018	2017
<b>Cash flows from operating activities</b>		
Loss for the period	\$ (383,446)	\$ (1,147,502)
Add items not involving cash:		
Option based compensation	48,882	373,246
Depreciation	11,534	9,682
	<b>(323,030)</b>	<b>(764,574)</b>
Changes in non-cash working capital balances:		
Receivable and advances	728	690,441
Prepaid expenses	70,387	(147,321)
Accounts payable and accrued liabilities	(449,156)	(230,180)
	<b>(701,071)</b>	<b>(451,634)</b>
<b>Cash flows from financing activities</b>		
Shares issued, net of share issuance costs	93,743	(3,288)
	<b>93,743</b>	<b>(3,288)</b>
<b>Cash flows from investing activities</b>		
Investment in mineral properties	(747,217)	(446,630)
Receipt of mineral property payment	316,175	199,485
Investment in equipment	(6,319)	(8,467)
Increase in exploration advance	-	(51,489)
	<b>(437,361)</b>	<b>(298,634)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>90,771</b>	<b>223,928</b>
<b>Net change in cash and cash equivalents during the period</b>	<b>(953,918)</b>	<b>(538,095)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>4,868,356</b>	<b>5,789,615</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 3,914,438</b>	<b>\$ 5,251,520</b>

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

- see accompanying notes -



# KOOTENAYSILVER INC.

(Expressed in Canadian dollars)

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018 and 2017

### 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 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, 2018, the Company closed the second tranche of its private placement for an additional \$109,000 with \$3,909,896 closed in December 2017 for total aggregate gross proceeds of \$4,018,896 (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 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, 2018	March 31, 2017
Deficit	\$ 42,652,232	\$ 40,287,160
Working capital	\$ 4,951,686	\$ 5,855,486

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

**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, 2017.

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, 2018.

**Functional and presentation currency**

These consolidated 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 financial statements. The significant accounting policies adopted by the Company are as follows:

**Basis of measurement**

These consolidated 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 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 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.

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

**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) 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 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 INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

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

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

Significant judgments used in the preparation of these consolidated 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, 2018. 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 adopted permitted. The Company has evaluated the impact of adopted IFRS 15 on the consolidated financial statements with no significant impact anticipated.

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 has evaluated the impact of IFRS 9 on its consolidated financial statements with no significant impact anticipated.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**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 State, Mexico, became wholly-owned subsidiaries of the Company.

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, 2018, \$62,277 (2017 - \$197,115) is due during the financial year ending December 31, 2018 and the remaining balance of \$62,165 (2017 - \$62,165) is due thereafter.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**5 Marketable Securities:**

As at March 31, 2018, the fair value of marketable securities held is \$543,575 (2017 – \$486,150). During the three months ended March 31, 2018, the Company recorded a loss to other comprehensive income of \$145,940 (2017 – gain \$1,860) for fair value adjustments to marketable securities.

**6 Fixed Assets:**

	Vehicle	Office Equipment	Computer Equipment	Leasehold	Land	Total
<b>Cost</b>						
Balance December 31, 2016	\$ 311,903	\$ 66,485	\$ 244,942	\$ 60,321	\$ 803,304	\$1,486,955
Additions	25,411	-	11,222	-	-	36,633
Effect of foreign exchange	(29,614)	-	(9,984)	-	-	(39,598)
Balance December 31, 2017	307,700	66,485	246,180	60,321	803,304	1,483,990
Addition	-	-	6,319	-	-	6,319
Effect of foreign exchange	(15,637)	-	(7,344)	-	-	(22,981)
<b>Balance March 31, 2018</b>	<b>\$ 292,063</b>	<b>\$ 66,485</b>	<b>\$ 245,155</b>	<b>\$ 60,321</b>	<b>\$ 803,304</b>	<b>\$1,467,328</b>
<b>Accumulated Depreciation</b>						
Balance December 31, 2016	\$ 265,814	\$ 49,881	\$ 54,876	\$ 41,847	\$ -	\$ 12,418
Depreciation for year	15,887	4,455	5,865	12,237	-	38,443
Effect of foreign exchange	(14,434)	(2,303)	(11,338)	(739)	-	(28,814)
Balance December 31, 2017	267,267	<b>52,033</b>	<b>149,403</b>	<b>53,345</b>	-	<b>522,047</b>
Depreciation for period	5,878	1,114	1,483	3,059	-	11,534
Effect of foreign exchange	(2,923)	(501)	(1,889)	(507)	-	(5,820)
<b>Balance March 31, 2018</b>	<b>\$ 270,222</b>	<b>\$ 52,645</b>	<b>\$ 148,997</b>	<b>\$ 55,897</b>	<b>\$ -</b>	<b>\$ 527,761</b>
<b>Carrying value</b>						
December 31, 2017	\$ 40,433	\$ 14,452	\$ 96,777	\$ 6,976	\$ 803,304	\$ 961,943
<b>Carrying value</b>						
<b>March 31, 2018</b>	<b>\$ 21,841</b>	<b>\$ 13,840</b>	<b>\$ 96,158</b>	<b>\$ 4,424</b>	<b>\$ 803,304</b>	<b>\$ 939,567</b>

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**7 Mineral Properties:**

	MEXICO					Mexico Total	CANADA			Canada Total	2018 Total	2017 Total
	Promontorio*	La Cigarra	Sonora Anomalies	Cervantes*	San Diego		Nechako Region	Silver Fox*	Other			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Acquisition Costs</b>												
Balance, beginning	3,658,642	30,269,372	591,681	-	148,868	34,668,563	163,880	50,750	1,395,185	1,609,815	36,278,378	36,182,955
Incurred	-	-	-	-	-	-	-	4,500	18,000	22,500	22,500	95,423
Balance, ending	3,658,642	30,269,372	591,681	-	148,868	34,668,563	163,880	55,250	1,413,185	1,632,315	36,300,878	36,278,378
<b>Exploration Expenditures</b>												
Balance, beginning	30,864,686 <sup>1</sup>	3,584,726	6,664,449	244,394	239,958	41,598,213 <sup>1</sup>	546,881	1,729,533	6,069,078	8,345,492	49,943,705 <sup>1</sup>	45,508,614 <sup>1</sup>
Assaying and Lab	-	48,869	-	-	-	48,869	-	409	-	409	49,278	224,984
Camp Costs	-	32,936	-	-	-	32,936	-	-	-	-	32,936	301,553
Drafting	-	2,533	-	-	-	2,533	-	9,058	3,903	12,961	15,494	70,855
Drilling	-	148,969	-	-	-	148,969	-	11,731	-	11,731	160,700	1,412,191
Geological mapping	-	26,073	-	-	-	26,073	-	-	-	-	26,073	205,663
Geophysics	-	-	-	-	-	-	-	-	4,400	4,400	4,400	13,900
Maintenance	-	66,633	19,430	-	43,403	129,466	900	-	4,796	5,696	135,162	265,770
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	9,584
Geological Consulting and Prospecting	-	145,087	-	-	2,556	147,643	-	-	12,500	12,500	160,143	1,159,678
Rock Sampling	-	-	-	-	-	-	-	-	-	-	-	-
Incurred	-	471,100	19,430	-	45,959	536,489	900	21,198	25,599	47,697	584,186	3,664,178
Balance, ending	30,864,686	4,055,826	6,683,879	244,394	285,917	42,134,702	547,781	1,750,731	6,094,677	8,393,189	50,524,891	49,172,792
Total property balance	34,523,328	34,325,198	7,275,560	244,394	434,785	76,803,265	711,661	1,805,981	7,507,862	10,025,504	86,828,769	85,451,170
Recovery of costs	-	-	(3,466,284)	(117,104)	(106,898)	(3,690,286)	-	(1,253,102)	(2,896,143)	(4,149,245)	(7,839,531)	(7,807,184)
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	(858,584)	-	(8,000)	(113,256)	-	(979,840)	-	-	(121,000)	(121,000)	(1,100,840)	(777,416)
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	33,127,000	34,325,198	1,170,082	-	327,887	68,950,167	78,130	482,229	664,185	1,224,544	70,174,711	69,152,883

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

\*Earn-in option agreement

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

**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\$650,000 has been received, with US\$250,000 received during the reporting period (second anniversary date); 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.



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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

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

**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 original 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 amended the agreement effective November 21, 2017, and extended the option agreement terms to December 31, 2020, with total cash payments remaining of US\$335,000, all other terms remained unchanged. As at March 31, 2018, the Company has made total cash payments of US\$105,000 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.

**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.

**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.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

**7 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") 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 75,000 common shares have been issued with a fair value of \$22,750 including 25,000 common shares with a fair value of \$4,500 issued during the three months ended March 31, 2018. 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 common shares 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 165,000 shares with a fair value of \$46,950, included in the respective amounts are 50,000 shares with a fair value of \$9,000 issued during the three months ended March 31, 2018.

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 share payments.

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.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

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

**Mark Property** - Southern British Columbia

On June 16, 2017, the Company entered into an option agreement with a wholly-owned subsidiary of Antofagasta Minerals S.A. ("Antofagasta S.A.") granting Antofagasta S.A. the option to earn up to a 65% interest in the Mark Project located in South Eastern British Columbia. The terms of the agreement grant Antofagasta the right to earn a 65% interest by funding or incurring an aggregate total of US\$3 million in exploration expenditures (the "Expenditures") on or before June 16, 2021. Upon exercising their earn-in, a joint venture based on a 65/35% interest will be formed under the Agreement in relation to the property.

On June 7, 2017, the Company exercised its right under a Grub Stake Agreement (the "Grub Stake Agreement") with the Kennedy Group to acquire a 100% interest in the Mark Project (the "Acquisition"). The Mark Project is comprised of 17 mineral tenures totaling approximately 14,093 hectares. Pursuant to the terms of the Grub Stake Agreement, in order to complete the Acquisition, the Company must issue 100,000 common shares to the Kennedy Group upon receipt of TSX Venture Exchange ("TSXV") approval. Following completion of the Acquisition, the Kennedy Group will retain an underlying 1% net smelter returns royalty, which can be purchased by the Company, in whole or in part, for \$1,000,000 per each one-half percent (0.5%).

*Property Investigation and Impairment*

During the three months ended March 31, 2018, the Company expended \$16,382 (2017 - \$95,317) related to other property investigation expense 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 or otherwise.

**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 January 5, 2018, the Company closed the final tranche of its non-brokered private placement raising total \$109,000 consisting of 545,000 units (the "Units") at a price of \$0.20 per Unit. Each Unit consists of one common share ("Common Share") and one-half of a transferable common share purchase warrant ("Warrant") totalling 272,500. Each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.30 until January 5, 2021.

On December 13, 2017, the Company closed the initial tranche of a non-brokered private placement for 19,549,480 units (the "Units") at a price of \$0.20 per Unit for gross proceeds of \$3,909,896. Each Unit in the private placement consisted of one common share and one-half of one common share purchase warrant ("Warrant") totalling 9,774,740. Each whole Warrant entitles the holder to acquire one common share at an exercise price of \$0.30 until December 13, 2020.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

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

**Options and Warrants:**

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

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2016	55,394,813	\$ 0.59	8,937,750	\$ 0.62
Granted	9,774,740	0.30	6,695,000	0.40
Expired/cancelled	(28,522,672)	0.53	(2,292,500)	1.02
Outstanding, December 31, 2017	36,646,881	\$ 0.48	13,340,250	\$ 0.43
Granted	272,500	0.30	-	-
Expired/cancelled	-	-	(491,750)	0.65
<b>Outstanding, March 31, 2018</b>	<b>36,919,381</b>	<b>\$ 0.48</b>	<b>12,848,500</b>	<b>\$ 0.42</b>

**Warrants**

As at March 31, 2018, the Company had outstanding share purchase warrants, enabling holders to acquire common shares as follows:

	Number of Warrants	Exercise Price	Expiry Date
	26,872,141	\$ 0.55	April 22, 2021
	9,774,740	0.30	December 13, 2020
	272,500	0.30	January 5, 2021
	<b>36,919,381</b>		

The weighted average remaining life of the outstanding warrants is 2.97 years (2017 – 2.56 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 which expired unexercised during the year ended December 31, 2017. Additionally, 23,103,969 warrants were issued as part of the consideration transferred to Northair (Note 4).

The following assumptions were used for the Black-Scholes valuation of warrants issued and amended during the three months ended March 31, 2018 and the year ended December 31, 2017:

	2018	2017
Risk-free interest rate	<b>1.64%</b>	1.64%
Expected life of warrants	<b>36 months</b>	36 months
Fair value per warrant issued	<b>\$0.106</b>	\$0.092
Annualized volatility	<b>86%</b>	86%
Dividend rate	<b>0.00%</b>	0.00%

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**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.

**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 year ended December 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 25% vesting on grant date and the remainder vesting in three equal increments on each six month period.

During the three months ended March 31, 2018, option based compensation totalling \$77,500 of which \$28,708 was capitalized under mineral properties and \$48,882 (2017 - \$373,246) was expensed. As at March 31, 2018, 11,174,750 options (2017 - 10,611,500) with a weighted average exercise price of \$0.43 per option (2017 - \$0.59) were fully vested and exercisable.

As at March 31, 2018, the Company had outstanding stock options enabling holders to acquire common shares of the Company as follows:

Number of Options	Exercise Price	Expiry Date
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
12,848,500		

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

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

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

The weighted average remaining life of the options is 2.64 years (2017 – 3.11 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, 2017 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2017
Risk-free interest rate	1.08%
Expected life of options	5 years
Fair value per option granted	\$0.223
Annualized volatility	84%
Forfeiture rate	0.00%
Dividend rate	0.00%

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

**Loss per share**

The calculation of basic loss per share for the three months ended March 31, 2018 was based on the loss of \$383,446 (2017 - \$1,147,502) and the weighted average number of common shares outstanding of 194,844,023 (2017 – 174,697,376), respectively. The Company does not have any instruments that would give rise to a dilution effect as of March 31, 2018 and 2017. As at March 31, 2018, the Company has 12,848,500 options and 36,919,381 warrants that are anti-dilutive and thus, not included in diluted loss per share.

**9 Receivables:**

The Company's receivables are as follows:

	March 31, 2018	March 31, 2017
IVA/GST receivable	\$ 332,347	\$ 194,122
Receivable	218,727	318,795
Advances and reclamation bonds	78,500	49,541
Total	\$ 629,574	\$ 562,458

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**10 Income Taxes:**

As at December 31, 2017, the Company has non-capital loss carry forwards for Canadian tax purposes of approximately \$22,739,507 (2016: \$20,469,615) 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:

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	2,186,647
2036	3,021,160
2037	2,021,113
<b>Total \$</b>	<b>22,739,507</b>

As at December 31, 2017, the Company has net capital loss carry forwards for Canadian tax purposes of approximately \$436,706 (2016: \$436,706) 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, 2017, the Company had non-capital loss carry forwards for Mexican income tax purposes of approximately \$1,905,561 from the Company's Mexico subsidiaries available to reduce taxable income in Mexico expiring in various years from 2024 to 2027.

Expiry	Mexico Total
2024 \$	635,554
2025	5,458
2026	1,035,819
2027	228,730
<b>Total \$</b>	<b>1,905,561</b>

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

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

	<b>2018</b>	<b>2017</b>
Option based compensation capitalized in mineral property	<b>\$ 28,708</b>	\$ -
Issuance of share capital for acquisition of mineral property interests	<b>22,500</b>	
Mineral property recoveries included in receivables and advances	<b>125,801</b>	21,243
Mineral property costs included in accounts payable	<b>\$ 41,899</b>	\$ 34,621

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**12 Related Party Transactions and Balances:**

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

	2018	2017
Management fees charged by companies controlled by a director and/or officers	\$ 98,249	\$ 143,250
Consulting, administrative and geological fees charged by a company with common officers	30,000	30,000
	\$ 128,249	\$ 173,250

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 remained at \$15,000 and ended on December 31, 2017.

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, 2018, the Company incurred expenses \$30,000 (2017 - \$30,000) under the administrative services contract.

In addition to the above:

- a) Included in marketable securities as at March 31, 2018 is \$315,000 (2017 - \$302,500) market value of shares received from companies with directors in common.
- b) Included in exploration recovery of costs as at March 31, 2018 is \$1,239,657 (2017 - \$1,232,393) received from joint venture partners who have a common director and a common officer.
- c) Included in accounts receivable as at March 31, 2018 is \$223,175 (2017 - \$148,944) from companies who have common directors or officers.
- d) Included in accounts payable as at March 31, 2018 is \$19,908 (2017 - \$33,231) to companies who have common directors or officers.
- e) For the three months ended March 31, 2018, the Company incurred \$26,000 (2017 - \$22,000) for compensation to directors.



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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

**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, 2018</b>	December 31, 2017
<b>Canada:</b>		
Current assets	\$ 4,580,546	\$ 5,884,825
Mineral properties	1,224,544	1,186,694
Non-current assets	106,420	113,751
Current liabilities	(324,901)	(724,397)
Non-current liabilities	(62,165)	(62,165)
	<b>\$ 5,524,445</b>	<b>\$ 6,398,707</b>
<b>Mexico:</b>		
Current assets	\$ 714,477	\$ 533,442
Mineral properties	69,036,466	67,966,189
Non-current assets	911,647	926,693
Current liabilities	(18,436)	(30,734)
	<b>\$ 70,644,154</b>	<b>\$ 69,395,590</b>

**14 Commitments:**

The Company entered into a contract for office rent, which commenced 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, 2018:

2018	<u>9,300</u>
	<u>\$ 9,300</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, 2018:

2018	<u>1,356</u>
	<u>\$ 1,356</u>

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

---

**15 Financial Instruments and Financial Risk Management:**

The Company's financial instruments include cash and cash equivalents, receivable and advances, marketable securities, 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 analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

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

(a) Credit risk:

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

(b) Liquidity risk:

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

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

The Company anticipates it will have adequate liquidity to fund its financial liabilities.

As at March 31, 2018, the Company's financial liabilities were comprised of accounts payable, accrued liabilities and exploration program advance, which have a maturity of less than one year and termination benefit payments, payable up to a further 13 months.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

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

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

The balances denominated in foreign currency are as follows:

	<b>March 31, 2018</b>	December 31, 2017
	<b>US\$</b>	US\$
Cash and cash equivalents	<b>1,132,807</b>	1,083,136
Receivables and advances	<b>2,731</b>	3,546
Trade accounts payable and accrued liabilities	<b>1,079</b>	10,147
	<b>Mexican Peso</b>	Mexican Peso
Cash and cash equivalents	<b>380,978</b>	4,573,530
Receivables and advances	<b>13,318,031</b>	13,464,822
Trade accounts payable and accrued liabilities	<b>359,284</b>	548,994

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 +/- \$241,000. 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.

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

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2018 and 2017**

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

(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 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:

<b>March 31, 2018</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>
Marketable securities	\$	543,575	\$	-	\$	-	\$	543,575
Cash and cash equivalents	\$	3,914,438	\$	-	\$	-	\$	3,914,438
<hr/>								
<b>December 31, 2017</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>
Marketable securities	\$	689,515	\$	-	\$	-	\$	689,515
Cash and cash equivalents	\$	4,894,356	\$	-	\$	-	\$	4,894,356

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.

## KOOTENAY SILVER INC.

(Expressed in Canadian dollars)

### NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018 and 2017

---

#### **16 Capital Management** *(continued)*:

The Company's investment policy is to hold cash in interest bearing, Schedule 1 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, 2018.