



August 21, 2012

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**Kootenay Silver Announces Results of Updated NI 43-101
Resource Estimate on its Flagship Promontorio Silver Project in Sonora, Mexico**

Kootenay Silver Inc. (TSX VENTURE: KTN.V) is pleased to announce that an updated resource estimate performed by SRK Consulting (U.S.) Inc. of Lakewood, Colorado (“SRK”) on its Promontorio Silver Project has resulted in a significant increase in the size of Promontorio’s Measured and Indicated mineral resources.

Resource Statement

The open pit mineral resources for the Promontorio Project are 36,018,000 tonnes grading an average of 51.35 g/t silver equivalent classified as Measured and Indicated Mineral Resources, with an additional 9,136,000 tonnes grading an average of 42.86 g/t silver equivalent classified as Inferred Mineral Resources. This resource is stated above a 15.00 g/t cut-off grade and contained within potentially economically mineable pit shells.

Underground mineral resources are 2,216,000 tonnes grading an average of 48.75 g/t silver equivalent classified as Indicated Mineral Resources, with an additional 3,077,000 tonnes grading an average of 53.90 g/t silver equivalent classified as Inferred Mineral Resources. The resource is stated above a 35.00 g/t cut-off grade to reflect the higher mining costs associated with underground production.

The mineral resources are summarized in Table 1. The updated Measured and Indicated resource contains an estimated 61,679,000 oz AgEq with another 14,469,000 oz AgEq categorized as Inferred.

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

- Significantly, extensive additional drilling has been incorporated into the new estimation. This includes over 37,900 meters of new drilling to expand the previous resource, as well as define an entirely new area to the NE of the previous resource. Over 22,000 samples were used in the modeled wireframes compared to just over 3,000 for the previous model.
- The new zones of mineralization have been defined through careful logging of the geology, and have been defined as wireframes that are volumetrically almost 15x larger than the previously modeled high-grade core that limited the estimation.
- Silver prices used for calculations of cutoff grades and equivalencies in the previous report were \$15/oz, less than half of the current 18-month rolling average of \$34/oz. This had a positive significant impact on the amount of material included in the pit optimization.

Table 1: Resource Statement for the Promontorio Deposit, Sonora State, Mexico: SRK Consulting (U.S.) Inc., July 31, 2012*

Open Pit						Reported at a 15 g/t AgEq Cutoff			
	AgEq Oz (000's)	Ag Oz (000's)	Pb Lbs (000's)	Zn lbs (000's)	Tonnes (000's)	Grade			
						AgEq (gpt)	Ag (gpt)	Pb (%)	Zn (%)
Measured	17,092	10,428	102,613	120,342	9,170	57.97	35.37	0.51	0.60
Indicated	42,371	25,675	257,043	301,592	26,848	49.09	29.74	0.43	0.51
M+I	59,463	36,104	359,656	421,934	36,018	51.35	31.18	0.45	0.53
Inferred	9,136	6,038	47,351	56,354	6,630	42.86	28.32	0.32	0.39

Underground						Reported at a 35 g/t AgEq Cutoff			
	AgEq Oz (000's)	Ag Oz (000's)	Pb Lbs (000's)	Zn lbs (000's)	Tonnes (000's)	Grade			
						AgEq (gpt)	Ag (gpt)	Pb (%)	Zn (%)
Indicated	2,216	1,371	13,284	14,987	1,414	48.75	30.15	0.43	0.48
Inferred	5,333	3,555	30,217	28,960	3,077	53.90	35.94	0.45	0.43

Total						Reported at multiple cutoffs			
	AgEq Oz (000's)	Ag Oz (000's)	Pb Lbs (000's)	Zn lbs (000's)	Tonnes (000's)	Grade			
						AgEq (gpt)	Ag (gpt)	Pb (%)	Zn (%)
Measured	17,092	10,428	102,613	120,342	9,170	57.97	35.37	0.51	0.60
Indicated	44,587	27,046	270,327	316,579	28,262	49.06	29.72	0.43	0.50
M+I	61,679	37,474	372,940	436,921	37,432	51.25	30.68	0.44	0.51
Inferred	14,469	9,593	77,568	85,314	9,707	46.36	32.57	0.39	0.41

Notes:

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

¹ Open pit resources stated as contained within a potentially economically minable pit shell

² Pit optimization is based on assumed silver, lead, and zinc prices of \$34/oz, \$1.07/lb, and \$0.97/lb respectively, mill recoveries of 82%, 85% and 91% respectively, a 1.5% NSR, mining costs of \$1.20/t, and a processing and G&A cost of \$12.00/t

³ Break-even cutoff grades used were 15 g/t AgEq for open pit mill material and 35 g/t AgEq for underground material;

⁴ Silver equivalency is based on unit values calculated from the above metal prices, and assumes 100% recovery of all metals.

⁵ Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding

Kootenay President and CEO James McDonald states, “It is immensely satisfying to see the hard work and diligence of our entire team on the ground and in the office be rewarded by such an excellent result. We cannot emphasize enough the significance that the 59 million measured and indicated silver equivalent ounces are contained within two optimized Whittle Pits. This bodes extremely well for the potential economic viability of the Promontorio project and our objective of seeing Promontorio become a prominent Mexican silver producer.”

Adds McDonald “In addition to the outstanding results, the resource areas remain open in multiple directions and have the potential to materially increase in size yet again. The next steps will be to aggressively pursue the expansion of these resources through drilling and to advance geotechnical, engineering, groundwater and environmental studies to be incorporated into assessing the economic viability of the project.”

The mineral resources are reported in accordance with Canadian Securities Administrators (“CSA”) NI 43-101 and have been classified in accordance with standards as defined by the Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) “CIM Definition Standards – For Mineral Resources and Mineral Reserves”.

This mineral resource estimate has been completed by Matthew Hastings M.Sc, P.Geo under the direction of Jeffrey Volk, M.Sc. C.P.G., FAusIMM, Principal Resource Geologist with SRK, who has reviewed pertinent geological information in sufficient detail to support the data incorporated in the mineral resource estimate. Mr. Volk is an Independent Qualified Person as defined under NI 43-101 and is responsible for the mineral resource estimate presented in this release.

Drilling data includes a total of 45,118 samples from 65,092m of drilling. Approximately 37,900m has been drilled since the 2010 resource was completed. Of the 45,118 samples in the database, 22,658 lie within the wireframes and were used in the resource estimation. This is significantly more data than the previous estimation, which used only 3,022 samples within the modeled wireframes. Wireframes are three-dimensional closed solids constructed in Vulcan™ and based on a combination of logged geology and assay information. These wireframes limit the estimation.

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

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

Pit optimization was conducted using Whittle™ software and evaluating the block model which was constructed in Vulcan™. A cutoff for the pit optimization of 15 gpt and 35 gpt silver equivalent for open pit and underground was used respectively.

Measured, Indicated and Inferred Mineral Resources are categorized as Measured being where at least 3 drill holes occur within a 25 meter ellipsoid, Indicated being where at least 3 drill holes occur within a 50 meter ellipsoid and Inferred being where at least 2 drill holes occur within a 75 meter ellipsoid. Blocks estimated using Inverse Distance Weighting in the widely-spaced drilling intermediate to the two predominant zones were categorized as Inferred.

QA/QC

The majority of holes reported here were drilled with HQ sized diamond drill core with some sections reduced down to NQ sized core. Core samples were cut using a core saw with 1 to 2 meter long sample intervals. A select few holes drilled using reverse circulation methods were included in the resource estimation, but are generally in the areas of more widely-spaced drilling between the two primary zones. Further Quality Assurance and Control procedures and details on assays are disclosed on the Kootenay Gold Inc. website.

SRK, with inputs from Kootenay on specific sections, will be the author of an NI 43-101 compliant Technical Report on the Mineral Resource Estimate for the Promontorio Project, to be filed within 45 days of this news release.

ABOUT KOOTENAY

Kootenay Silver Inc. is actively developing mineral projects in the Sierra Madre Region of Mexico and in British Columbia, Canada. Its flagship property is the former producing Promontorio Silver mine in Sonora State, Mexico. Kootenay's objective is to develop near term discoveries and long-term sustainable growth. Its management and technical team are proven professionals with extensive international experience in all aspects of mineral exploration, operations and venture capital markets. Multiple, ongoing J/V partnerships in Mexico and Canada maximize potential for additional, new discoveries while maintaining minimal share dilution.

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*The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or the accuracy of this release. **Cautionary Note to US Investors:** This news release may contain information about adjacent properties on which we have no right to explore or mine. We advise U.S. investors that the SEC's mining guidelines strictly prohibit information of this type in documents filed with the SEC. U.S. investors are cautioned that mineral deposits on adjacent properties are not indicative of mineral deposits on our properties. This news release may contain forward-looking statements including but not limited to comments regarding the timing and content of upcoming work programs, geological interpretations, receipt of property titles, potential mineral recovery processes, etc. Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements.*

This press release uses the terms "Measured", "Indicated", and "Inferred" resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of a Mineral Resource is economically or legally mineable.